

# Relationships that Matter







# Relationships that Matter

Our stores are the first shopping choice for people living across the North and in urban neighbourhoods across western Canada.

**Relationships that Matter** Throughout this annual report photographs of customers, communities, employees, suppliers and investors are shown. Communities featured include La Ronge, Cordova, Winnipeg, Norway House, Kotzebue, Kodiak, Chisasibi, Dillingham, Fort Liard, Norman Wells, Moosonee, God's Narrows, Iqaluit, Hooper Bay, Toronto, Anchorage, Wunnumin Lake and McGrath.

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1 Kodiak, Alaska has two Value Centers.  
2 Iqaluit, Nunavut has three Quickstops.  
3 Winnipeg, Manitoba has five Giant Tiger stores including a store on Jefferson Avenue which opened March 19, 2005. The Pas, Manitoba Giant Tiger opens April 30, 2005. Brandon, Manitoba Giant Tiger opens May 28, 2005.



# Financial Highlights

All currency figures in this report are in Canadian dollars, unless otherwise noted.

Fiscal Year (\$ in thousands) **2004 52 Weeks** 2003 53 Weeks 2002 52 Weeks

## Results For The Year

|                                                                                       |                  |           |           |
|---------------------------------------------------------------------------------------|------------------|-----------|-----------|
| Sales                                                                                 | <b>\$788,693</b> | \$782,720 | \$749,759 |
| Same store sales % increase (equivalent 52-week basis)                                | <b>1.4%</b>      | 2.1%      | 3.4%      |
| Trading profit <sup>1</sup> (earnings before interest, income taxes and amortization) | <b>\$ 76,606</b> | \$ 72,826 | \$ 72,271 |
| Earnings before interest and income taxes <sup>2</sup> (EBIT)                         | <b>52,701</b>    | 50,425    | 49,599    |
| Net earnings                                                                          | <b>37,265</b>    | 35,730    | 34,469    |
| Cash flow from operations                                                             | <b>62,798</b>    | 58,886    | 59,184    |

## Financial Position

|              |                  |           |           |
|--------------|------------------|-----------|-----------|
| Total assets | <b>\$413,637</b> | \$409,600 | \$418,191 |
| Total debt   | <b>120,932</b>   | 127,902   | 136,812   |
| Total equity | <b>236,285</b>   | 228,478   | 219,384   |

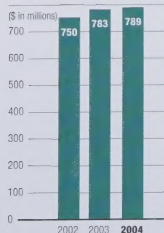
## Financial Ratios

|                                   |              |       |       |
|-----------------------------------|--------------|-------|-------|
| Debt-to-equity                    | <b>.51:1</b> | .56:1 | .62:1 |
| Return on net assets <sup>2</sup> | <b>14.8%</b> | 14.1% | 13.4% |
| Return on average equity          | <b>16.2%</b> | 16.0% | 15.8% |

## Per Unit (\$)

|                                         | BASIC          | DILUTED        | BASIC   | DILUTED | BASIC   | DILUTED |
|-----------------------------------------|----------------|----------------|---------|---------|---------|---------|
| Trading profit                          | \$ <b>4.81</b> | \$ <b>4.75</b> | \$ 4.57 | \$ 4.52 | \$ 4.51 | \$ 4.48 |
| Net earnings                            | <b>2.34</b>    | <b>2.32</b>    | 2.24    | 2.22    | 2.15    | 2.14    |
| Cash flow from operations               | <b>3.95</b>    | <b>3.89</b>    | 3.69    | 3.65    | 3.70    | 3.67    |
| Equity—net book value                   | <b>14.86</b>   | <b>14.65</b>   | 14.34   | 14.17   | 13.76   | 13.60   |
| Cash distributions paid during the year |                | <b>1.80</b>    |         | 1.90    |         | 1.56    |
| Market price—January 31                 |                | <b>30.65</b>   |         | 23.63   |         | 20.70   |
| —high                                   |                | <b>31.74</b>   |         | 25.50   |         | 21.03   |
| —low                                    |                | <b>23.10</b>   |         | 20.87   |         | 16.95   |

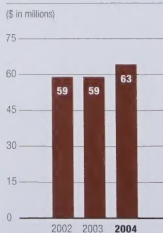
Sales



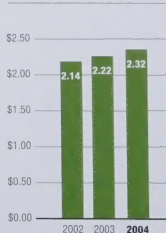
Trading Profit



Cash Flow From Operations



Net Earnings Per Unit—Diluted



1 See Non-GAAP measures section on page 17 in the Management's Discussion & Analysis which is available through SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.northwest.ca](http://www.northwest.ca)

2 Earnings before interest and income taxes as a percent of average net assets employed



# Another Year of Increased Sales & Profitability



**The North West Company Fund (NWF) had another year of increased sales and profitability.** It is gratifying that the capital markets have acknowledged the Fund's performance and management's direction for the future.

A key contributor to our financial performance has been the significant turnaround in our Alaska business. Unitholders will recall that prior to 1997, Alaska Commercial Company (AC) had accumulated significant losses. Edward Kennedy moved to Alaska in 1995 and rebuilt that management team. Jerry Bittner was hired as Vice-President, Marketing in 1996 and was appointed President of AC in 1997. Since 1996 the trading profit of AC has grown from \$2.2 million to \$14.0 million. Jerry retired in March 2005. On behalf of all unitholders and your Board, I recognize the tremendous contributions of Jerry and his AC team.

Don Beaumont will be retiring from the Board at our Annual and Special Meeting of Unitholders in June. Don is a renowned merchant in Canada and can always be counted on for insightful comments on our retail strategies. He chaired our Human Resources and Compensation Committee with great discipline, energy and fairness. I thank Don for his sterling nine-year contribution to the development of the North West Company Fund.

Governance guidelines have grown in complexity and force. I am pleased to note, as detailed in our Information Circular, that the NWF is in compliance with the spirit and letter of these guidelines. Your Board members have always governed themselves with the independence and integrity that one would expect from the NWF tradition for adhering to its strong values.

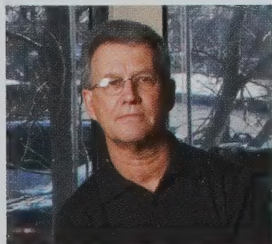
I would like to recognize the outstanding contributions of our more than 5,500 employees whose dedication and performance every day make our stores the first shopping choice for people living across the North and in urban neighbourhoods across western Canada.

Ian Sutherland

CHAIRMAN, THE NORTH WEST COMPANY INC. TRUSTEE, NORTH WEST COMPANY FUND APRIL 15, 2005

▲ Ian Sutherland visits Giant Tiger (Donald Street) in Winnipeg, Manitoba.

▼ Jerry Bittner and Don Beaumont will retire this year.





# Building Relationships that Really Work



At North West we strive to serve our customers today while creating a clear path that will sustain performance over the long term. For several years, we've achieved success by keeping this focus and balance.

**2004 marked another year of improvement.** While we were satisfied with our numbers, we know that we can do better by identifying new customer needs, finding lower-cost ways of doing business and improving execution.

In this report, we talk about our results and strategies. In the feature section that follows, we give you a picture of what we stand for through the eyes of our customers, employees, communities, suppliers and investors. Their words reflect the relationships we want to develop across all our activities.

**Solid Financial Results** Consolidated revenues were up 2.2% last year, excluding the foreign exchange impact of a stronger Canadian dollar. Comparable or "same store" sales increased by 1.4% falling short of our 3% target. We started the year with lower inventory levels and a focus on margin management. This hurt sales more than we expected. Our customers' retail spending was squeezed by a major rise in fuel-related living costs. New merchandise and credit programs helped to accelerate sales growth in the second half, leading to a 4.1% increase in the fourth quarter.

Trading profit rose by 5.2% to \$76.6 million and was up 9.5% on a comparable basis, after adjusting for lower U.S. earnings in Canadian dollar terms and an unusual \$2.0 million insurance recovery gain in 2003. Improved product sourcing delivered higher margins, and new technology helped us to achieve store-level cost reductions during a demanding sales year.

Net income in 2004 was a record \$37.3 million. Earnings per unit (diluted) were up 4.5% to \$2.32, and return on equity was a very healthy 16.2%. This was our sixth consecutive year of higher income. Compound average earnings have increased 15% per year over this period.

North West unitholders again enjoyed the benefit of receiving steady income and a rising value from their North West Company Fund investment. Growing distributions, combined with gains in our unit price, delivered a total return to unitholders of 38.9% in 2004. Over the past five years, the compound average annual total return to our unitholders has been 32.2%, compared to 3.3% for the TSX Retailing Group.



Customers, employees, communities, suppliers and investors—the key players in relationships that we want to develop across all of our activities.

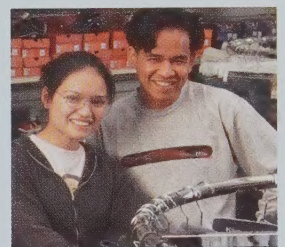


## Tracking 2004

### Key Initiative Performance

In last year's report, we set out the key opportunities for the year. Most of these were completed successfully:

- ✓ **60 Northern Canada Retail (NCR) managers completed Best Practice training.** This met our goal and was a \$422,200 investment in three weeks of hands-on learning on how to raise store standards and become a more effective manager. The return on training investment, measured by improved margins and labour savings, is less than two months.
- ✓ **20 individuals were recruited for our new NCR Manager-In-Training program.** This in-depth 6 to 12 month program ensures that manager candidates have the skills and knowledge to lead a store from the beginning of their first assignment.
- ✓ **137 stores were installed with new store information systems, completing the northern Canada and Alaska roll-out we started in 2003.** This delivered a platform for more efficient customer transactions, more effective product selection and ordering at store level, and it enabled us to install more robust price-management and staff-scheduling tools.
- ✓ **New or renewed product and service businesses were tested to expand our share of customers' everyday spending.** We developed direct importing from China; started to sell motor vehicles; tested three gas bars in road locations; increased our private label food assortment by 10.0% and doubled our sales to commercial customers like local governments and schools.
- ✓ **8 new replacement and major renovation store projects were completed, all within our capital spending plan.**
- ✗ **Our wholesale businesses, Crescent Multi Foods in Canada and Frontier Expeditors in Alaska, did not meet their new account sales targets.** We still see this as a significant long-term opportunity, but more work is required to build a unique, winning, competitive position.
- ✓ **Senior leadership positions were filled for our Northern/NorthMart, AC Value Center and Giant Tiger store banners, completing a smooth, planned succession process.**
- ✓ **3 new Giant Tiger stores were opened, increasing our store count to 10.** All stores open for more than one year, with the exception of one, have continued to improve their top and bottom line performance.







**Thank You**  
for shopping

*In Alaska, we are the local store of choice in 22 of 24 of the communities we serve.*

**Strategies to Sustain and Build Our Business** In 2004, we fine-tuned our strategic direction and our long-range plans. We started with a competitive position that is based on three core strengths:

- Logistical expertise in remote retailing in Canada;
- Our superior physical store investment in the North; and
- Our understanding of the unique lifestyle needs of Aboriginal and other northern consumers.

**Adding to Our Core Strengths** These core strengths have been part of North West for many years, but they are no longer our only advantages.

In Alaska, we have built a profitable remote retail business. Today, we have the leading market share and are the local store of choice in 22 of the 24 communities we serve. Our 2004 results reflect this, with close to 20% of consolidated trading profit generated from Alaskan operations.

With the expansion of our Giant Tiger store base, we now serve the everyday needs of shoppers in rural and neighbourhood communities across western Canada, as well as the northern part of North America. We see our Northern/NorthMart, AC Value Center and Giant Tiger banners strengthening as they leverage off each other to drive down merchandise, logistics and support service costs while sharing ideas for growth.

Financial services are another newly established strength at North West. Our stores provide a range of credit and bank-type products to our customers, adding to the one-stop appeal of shopping with us. In 2004, financial services contributed \$3.3 million or 4.3% of our trading profit. Over the past two years, we have completed the installation of a new credit management system and ATM network, giving us a platform for expansion in this area.

**Next Level Priorities** We have several next level priorities, starting with our ability to capture more local sales opportunities. Through better recruitment and learning programs we are investing to build a level of talent across our store base that is second to none. In tangent with this initiative, we continue to redesign work, technology and compensation to give our store teams the time and incentive to get sales.



Within our merchandising ranks, we are placing our emphasis on buying great items at the best cost to support our Giant Tiger stores and, by extension, our northern retail banners. This "buy side" focus is a skill we've reinforced through the creation of a Food Procurement & Wholesaling Division in late 2004.

An ongoing opportunity and challenge at North West is deciding what to sell next. Our strategy is to be opportunistic but to take care of our food business first. We want food to anchor the shopping experience by making our stores a frequent destination. In the North, we want to go further to ensure that we are always the first choice for a full range of food, from fresh to shelf products. To help achieve this, food will be front and centre for future technology investment, training, selling space and store-level sales focus.

As we search for new customer needs to meet, two examples stand out: wellness and transportation. Wellness captures the burgeoning interest in health care and healthier living. Our 15-year forecast shows that, while our northern customers will still be 10 years younger than the Canadian average in 2020, even this demographic is getting older. In fact, the 40 to 55 age segment will increase by 200%. Wellness in our stores will revolve around more pharmacy services, private-branded food and non-food lifestyle products and visible, meaningful support for community healthy-living activities.

Transportation accounts for a large percentage, between 25% to 30%, of our customers' spending dollar. Today, we are only partially in this business. We sell snow machines, boats, motors and all-terrain vehicles, and we operate gas bars in 35 locations. Tomorrow, we envision retail gas outlets as part of our core product mix, and rapid growth of our truck and car sales.

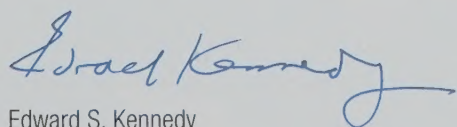
**Focus and Balance—The Current Year** Our "focus and balance" approach will serve us well in 2005. The retail industry keeps moving toward bigger stores run by stronger competitors and fewer stores run by weak ones. In this environment, we will succeed by capturing and meeting local needs faster and better than the big box chains. We will keep our eye on daily, weekly and seasonal selling opportunities while investing even more in strategies for the future.

Fuel prices are expected to remain high in 2005. This will affect energy-dependent markets like northern Canada and Alaska where we must continue to compete hard to gain our share of spending. In the North, we plan to reinvest operating and product cost savings in our pricing so that we create more local shopping loyalty and higher spending per shopping trip. Our Best Practice training and work processes will expand to Alaska and to our small and medium northern Canadian stores. We will increase our Manager-In-Training graduates and plan to roll-out a broadband communication network to all our northern Canadian stores.

In the South, we plan to open four new Giant Tiger stores, bringing us closer to a critical mass of at least 20 stores so that we can get a full return on our investment in development and overhead. We continue to believe that our Giant Tiger venture will be a major contributor to our cash flow growth over the next 5 to 10 years.

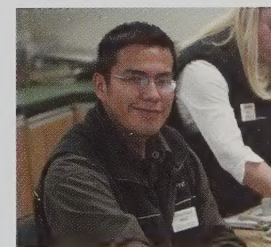
Inventory management will get more attention in 2005. We finished 2004 with higher than expected inventory levels due to a number of factors, including the timing of winter road shipments, a decision to open our spring catalogue season with a stronger in-stock position and earlier purchases resulting from more direct buying. We plan to achieve reductions through better buying systems and the weeding out of slow-turning products.

Finally, doing better in the current year will mean enhancing our skill in innovation and continuous improvement. I am excited about our prospects in both areas because we are investing in learning, processes and technology. Above all, we're starting from our greatest strength—the dedication and commitment of our more than 5,500 employees.



Edward S. Kennedy

PRESIDENT & CEO, THE NORTH WEST COMPANY INC. APRIL 15, 2005





# Customers Value Service & Selection

## AMID GREAT CHANGE, TRADITIONS LIVE ON

Janie Sam's life is a balance between tradition and change. Every summer she heads out with friends and family from her home in Chisasibi, Québec for the trek to an island in the middle of a river. About three decades ago, the land was flooded by a new dam, part of the massive James Bay hydroelectric project. "They said our village would end up under water, but it didn't," she says. "We go back every summer to camp and celebrate our traditions."

The dam also brought jobs and new housing to Chisasibi, located on the shores of James Bay, so that the town has more than quadrupled in size. But Janie is careful to keep alive traditions that count, such as the walking out ceremony where young toddlers in traditional dress first assume their place in the community.

Another constant for Janie has been the local Northern store. "I go there for almost everything," she says. "They're so friendly. It seems like they've always been there, growing with the community." This year Janie's photo graces the month of June in the Northern calendar, which is distributed across the North. "The people at the store kid me a lot," she laughs. "At my age, they've started calling me a calendar girl."

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Janie Sam, Retired  
Chisasibi, Québec

*"It seems like they've always been there, growing with the community."*





## SERVICE—IT'S IN THE BAG AT AC

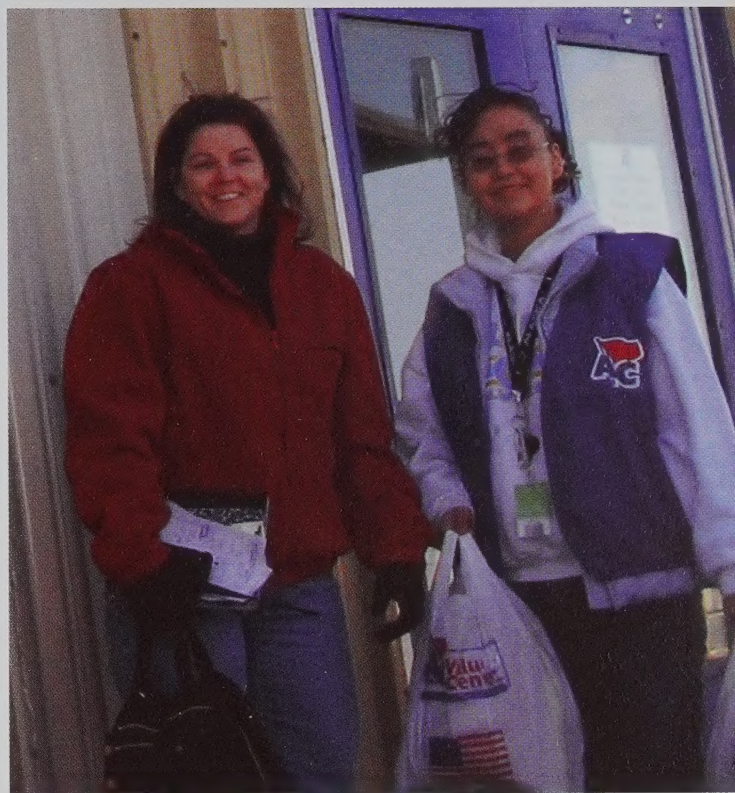
It's a simple thing, but to Jamie Vance it epitomizes the whole approach to service at her local AC store in Dillingham, Alaska. She's talking about how store staff carry her groceries out to her pickup truck.

"At AC, they always pick up my groceries. They know me, they know my pickup truck and they know I like the bags put on the front seat," says Jamie. "If you put food in the back of the truck, the ravens get it. They're huge. I don't know how it started, but the grocery baggers do it all the time now, and they don't even make you think they're doing you a favour."

Jamie, a Girl Scouts leader, has shopped for more than six years at the AC store in Dillingham, a commercial fishing community of about 4,900 in southwestern Alaska.

For Jamie, AC means service, whether it's cutting up poultry for her husband's favourite chicken fried steaks or donating paper and bows for the Scouts' gift wrapping fundraiser at the local Christmas craft show. "They do everything with a smile, it just seems to come naturally," she says.

Jamie Vance, Mother & Girl Scouts Leader  
Dillingham, Alaska



*"They do everything with a smile,  
it just seems to come naturally."*



*"It's about three hours  
to the next town. It's nice  
to have a store that meets  
everybody's needs."*



## THE NORTHERN APPROACH—"PROACTIVE"

Fort Liard is a remote community in the western Arctic. That remoteness brings people closer together. Nobody knows that better than Gloria Nasogaluak and Josh McDonald, who recently arrived in the community after being hired by the hamlet office to organize sports and recreational programs.

They soon became a fixture in the community, and one of the places where their connection to the community began was at the Northern store. "When we arrived we didn't know anybody," says Gloria. "But people have been so nice to us." That includes Northern store manager Wayne Newbury. "Right from the start, he wanted to know how the store could help with our activities," says Josh. "Northern is always supportive."

The store provided free popcorn and movies for their movie night; candy for a Halloween event; bottled water, burgers and hot dogs for last summer's beach bash, and "lots of other stuff," says Josh.

"It's about three hours to the next town, so it's nice to have a store that meets everybody's needs," says Gloria. "If we want something, we go straight to Northern and usually they have it in stock. What they don't, they help you get it. They just like to help."

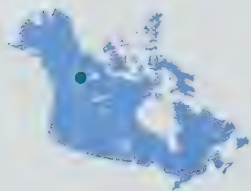
Gloria Nasogaluak & Josh McDonald, Recreation Programmers  
Fort Liard, Northwest Territories



# Employee Commitment Runs Deep



*"We're not just a store,  
we're part of the community."*



## WORKING HARD TO FIND AND KEEP CUSTOMERS

As manager of the Northern store in Norman Wells, Northwest Territories, Dee Opperman believes that being proactive in relationship-building is the key to a successful store. In the two years that Dee has been in Norman Wells, business has almost doubled.

"I'm the President of our Chamber of Commerce and a member of the Legion. I know all our customers by name and they know me. It's important to be a real part of the community," says Dee.

With retailers from Yellowknife advertising locally every day, staff at the Northern store in Norman Wells are constantly coming up with marketing and promotional ideas to keep customers in town. From marketing *Atkins* diet products, using local cable TV to promote contests and sales, to mailing out food flyers, they work hard to find and keep good customers.

"In the end, it depends on the relationship you develop with your customers," says Dee. "Our *Selections* catalogue, pricing, product display—they're all important in selling food and general merchandise. To me the real key is making a personal connection. We're not just a store, we're part of the community."

Dee Opperman, Store Manager  
Northern, Norman Wells, Northwest Territories

## LINKS WITH THE PAST, LINKS TO THE FUTURE

Ashley Allard has a very personal link to four generations of Nor'Westers. "I can remember my grandmother talking about my great-grandfather working for the Company in Stanley Mission, Saskatchewan," Ashley says. "During winter they were totally isolated until that first spring shipment arrived."

With stores spread across 4,000 miles, coast to coast to coast, distance and logistics are still challenges at The North West Company. But thanks to technology, the business is changing.

As a District Manager, Ashley is responsible for 10 stores in northern Manitoba and Saskatchewan. He's worked in seven locations and has probably seen as many changes in his 13 years with the Company as did the four generations of Nor'Westers before him.

While many things have changed since Ashley's great-grandfather served the North, some things remain the same. "This is still a special company and the people I work with take real pride in how important we are to our communities," says Ashley. "I think my great-grandfather knew about that."

Ashley Allard, District Manager, Saskatchewan District  
The North West Company, Winnipeg, Manitoba







## PERSISTENCE PAYS FOR A 36-YEAR-OLD VETERAN

At 14, Calvin Daigneault was already a champion of the phrase “persistence pays” in his hometown of Ile a la Crosse, Saskatchewan. “I wanted a job at the Northern store and I went back every week until I convinced the manager that I was the right person,” Calvin says. It only took 10 weeks.

Now, 22 years later, Calvin is a retailing veteran who has worked as a grocery department manager in eight stores across the North. His experience, coupled with a natural “get sales” instinct, made him an obvious choice to be a Best Practice trainer, which allows him to share proven operational standards with other grocery department managers.

Over the past two years, 54 trainees from the Company have travelled to Calvin’s store in Moosonee, Ontario to learn daily operating disciplines that create higher inventory turnover and lower operating costs. “When I train someone, it’s a two-way street. We both end up learning better ways of doing things,” Calvin says.

“It’s important to be persistent, not only as a person, but also as a company. When a customer compliments us on a well-run store, then we know we’re doing things right.”

Calvin Daigneault, Grocery Department Manager  
Northern, Moosonee, Ontario

*In April 2005, Calvin was promoted to Store Manager,  
Portage La Loche, Saskatchewan.*



*“When a customer compliments  
us on a well-run store, then we  
know we’re doing things right.”*





# Community Links are Strong

## FIGHTING DIABETES FROM HAWAII TO GOD'S NARROWS

The North West Company is the largest private contributor to the *Canadian Diabetes Association* (CDA). And for good reason. The incidence of diabetes is three to five times higher among Aboriginal people than in the general Canadian population.

Our commitment touches a lot of people. One of them is Dora Bland, an employee at the Northern store in God's Narrows, Manitoba. Dora participated in the Company's six-member Hawaii marathon Team Diabetes in 2003. North West sends a team to an international marathon every year, the most successful company fundraising initiative for the CDA, raising \$457,000 over the past four years. It's all part of the Company's Healthy Living program, focusing on the benefits of physical activity and a healthy lifestyle to combat diseases and contribute to a better quality of life.

Dora has brought the Team Diabetes spirit to God's Narrows. Using the store as a base, she started a walking club as a way to improve residents' health. "We go out every day, sometimes twice a day," she says. "You've got to watch out for bears in the fall and wolves in the winter, but they don't really want to bother with us."

Last year, Dora ran in the Manitoba Marathon and that created tremendous local interest. "Now people here want to train for the marathon in 2005. I'm going to promote the relay races," says Dora.

Dora Bland, Northern Department Manager with her walking club  
God's Narrows, Manitoba



Dora Bland, Leslie Anderson, Shirley Anderson and Leonard Bland





LEFT David Serkoak and students at the NorthMart in Iqaluit.  
RIGHT A mother consoles her child during the fire at Joamie Elementary School.  
BOTTOM The Beat of the Drum campaign closes with the presentation of a cheque worth \$51,739 for the Joamie School Cultural Programs.

## RESTORING A COMMUNITY'S DRUMBEAT

In Nunavut, and most of Arctic Canada, drum dancing and throat singing are treasured cultural activities. At Joamie Elementary School in Iqaluit, these traditions are so special the school has received international recognition. So when a fire destroyed the school last year, including Principal David Serkoak's Inuit drum collection, the whole community mourned the loss.

"When NorthMart asked if they could do something to restore our cultural programming, I was lost for words," says David. "We lost everything and NorthMart jumped right in to help."

"We created a Beat of the Drum campaign and donated a portion of store sales to Joamie School," says Glenn Cousins, store manager for the NorthMart store in Iqaluit. "We raised \$51,739 to help maintain the school's cultural programs."

Joamie School's drums, costumes and equipment are all being replaced. "We've performed for the Queen, for heads of state, and right inside the NorthMart store. Recognition outside of your community is very rewarding, but so is being appreciated within your own backyard," says David.

Thanks to NorthMart's support, Joamie Elementary School's cultural programs haven't missed a beat.

David Serkoak, Principal of Joamie Elementary School  
Iqaluit, Nunavut



## AC'S MODEL PARTNERSHIP IN HOOPER BAY

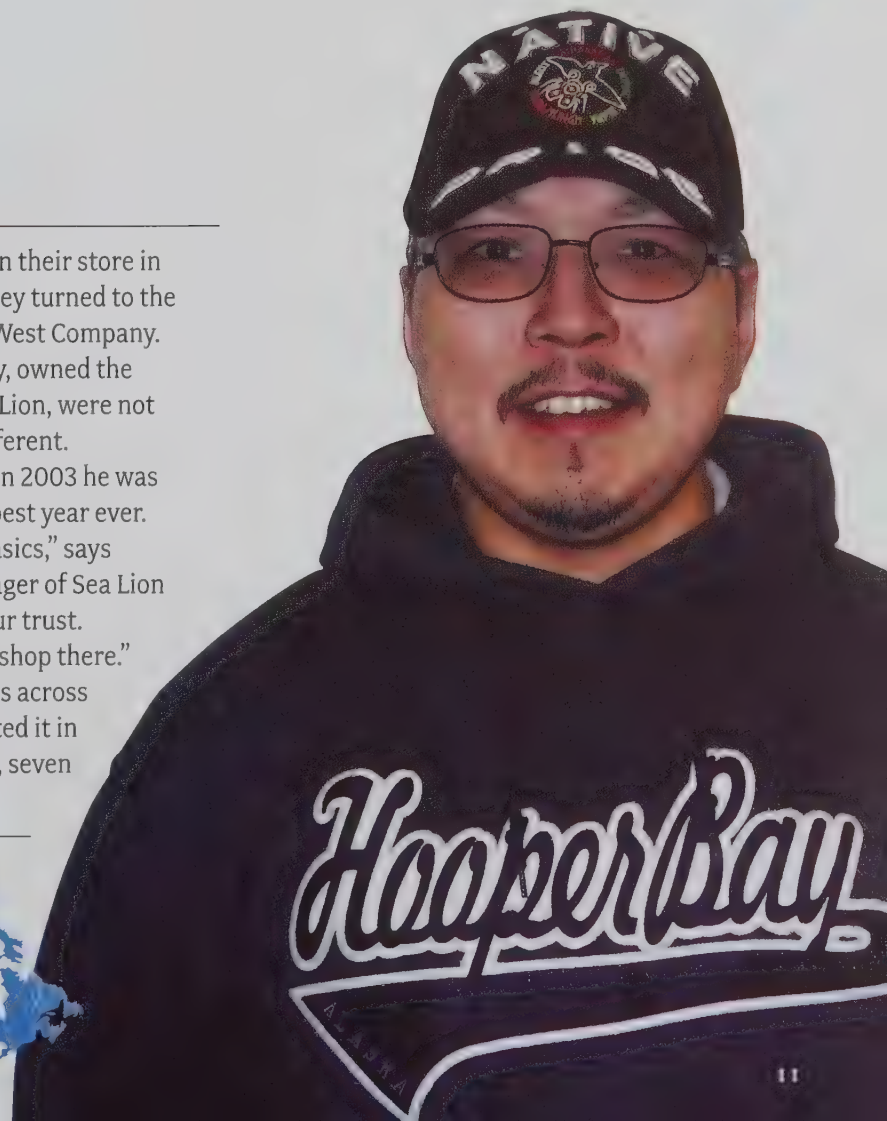
When the residents of Hooper Bay needed a new partner to run their store in the community of 1,200 people on the west coast of Alaska, they turned to the Alaska Commercial Company (AC), a subsidiary of The North West Company.

Sea Lion Corporation, the village corporation of Hooper Bay, owned the lease on the store. But residents, who are shareholders in Sea Lion, were not happy with the level of service. Today, the situation is very different.

AC trained a local resident to run the AC Value Center, and in 2003 he was named rookie manager of the year. In 2004, the store had its best year ever. "We've improved the selection and we're always in stock on basics," says branch manager John Olson Jr. William Naneng, General Manager of Sea Lion Corporation, adds "Being a partner with the store increases our trust. We benefit when they do well, and we tell our shareholders to shop there."

Hooper Bay has become a model for similar AC partnerships across Alaska. "It's worked so well we've refined our model and adopted it in other communities," says Rex Wilhelm, President of AC. "Now, seven of our 24 stores in Alaska run on a Hooper Bay type model."

John Olson Jr., Branch Manager  
AC Value Center, Hooper Bay, Alaska





# Suppliers Add Real Value

*"We've increased our sales,  
they've reduced inventory."*



## ALLIANCE BENEFITS BY THE TRUCKLOAD

How can you hold a "Truckload Sale" when there are no roads in or out of town? In the North, problems like these are just technicalities. They certainly haven't stopped Northern and its alliance partner *Dufresne Furniture and Appliances* of Winnipeg, Manitoba.

"Last year, 50 truckload events were organized by Dufresne and Northern at locations across the North," estimates company CEO Mark Dufresne. "In some places the goods come in by barge, in others we use a container and put wheels on it," says Mark. "In northern communities it's a real big event, but you can't call it a 'Barge Sale.'"

Truckload sales are just one of the benefits the retailing alliance has brought to Northern and its customers. The alliance has meant increased buying leverage, better marketing programs, wider selection and faster order turnaround times. "We know the furniture and appliances business better, they know the North," says Mark. "We've increased our sales, they've reduced their inventory. The benefits are extensive. These sales provide an exceptional promotion, improved selection to consumers, and will continue to be a valued part of the alliance strategy."

Mark Dufresne, Chief Executive Officer  
*Dufresne Furniture & Appliances, Winnipeg, Manitoba*



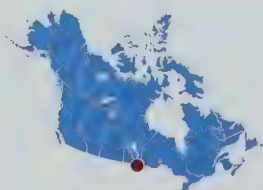
## CREATING A LIQUID ASSET OUT OF H<sub>2</sub>O

Water isn't scarce in the North but drinkable water is not always easily accessible or cheaply available. Enter Northern and its partner, *Dyna-Pro Environmental*. Dyna-Pro is Canada's largest supplier of water purification systems. "In 1992, we installed test systems in a few Northern stores," says Paul McDonald, Vice-President, Operations at Dyna-Pro. "Today more than half of all stores offer our *Ultra-Pure™* systems, and water sales have been growing quickly."

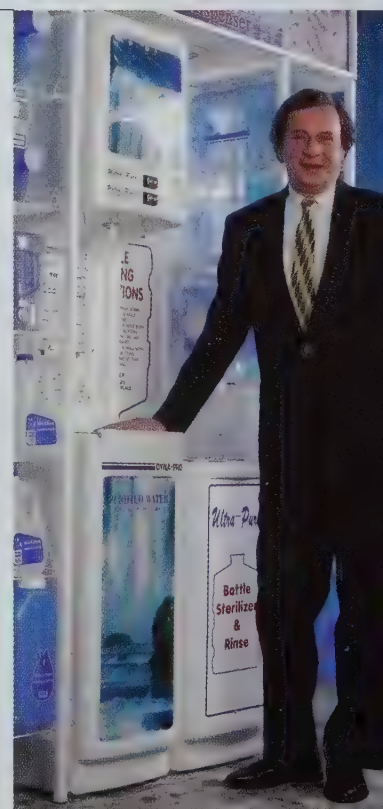
"We hope to have systems in virtually all stores within the next year. It's the only product the stores sell that they also produce."

For customers, the attraction is simple: *Ultra-Pure™* water can be as little as two-thirds the cost of bottled water, which is expensive because many locations have to fly it in from the South. For the stores, offering safe, affordable water increases traffic and meets an everyday need in a cost-effective way.

Paul McDonald, Vice-President, Operations  
*Dyna-Pro Environmental, Winnipeg, Manitoba*



*Safe, affordable water meets  
an everyday need in a cost-effective way.*





*"AC makes the extra effort."*



## UNFRESH AT AC? PERISH THE THOUGHT

In southern Canada and the lower 48 states, shoppers take fresh produce for granted. But in the North, everybody knows they don't call them "perishables" for nothing.

"In the North, it's not easy getting fresh produce to market quickly," says Elaine Nisson, Senior Account Manager for Northern Air Cargo in Anchorage. "AC makes the extra effort."

Alaska Commercial Company is the premier retailer in "bush" or remote Alaska. AC is #1 because it thinks like #2. It tries harder. And so do its suppliers. So when AC decided to improve produce deliveries a couple of years ago, it turned to its main transportation partner, Northern Air Cargo.

"We ship by air almost every item in their stores in western and northern Alaska," says Elaine. "When you work together this closely for so long you feel you're part of the Company. We worked out a system where, as soon as AC produce arrives in our warehouse, it goes out on the next flight. Customers get it days earlier."

For AC, first in freshness means higher freight costs, but also less wastage, setting a higher bar for their competitors, boosting loyalty and further strengthening their #1 market position.

Elaine Nisson, Senior Account Manager  
Northern Air Cargo, Anchorage, Alaska





# Performance Shines Through for Investors



## AN INVESTMENT THAT STRENGTHENS NORTHERN CONNECTIONS

Investments are measured in dollars, but in the end it all comes back to people. That's certainly the case with *Rupertsland Holdings Inc.*'s investment in units of the North West Company Fund (NWF).

Rupertsland invests on behalf of more than 150 Aboriginal communities in Saskatchewan, Manitoba, western Northwest Territories and the Yukon. Its first and most important investment was in NWF units.

"Our investment makes sense on so many levels," says Allan McLeod, President and CEO of Rupertsland. "Some of our people work for North West, many are customers and, through other investments, we are business partners and suppliers. It's only natural that we take some ownership in the Fund because our investors have so many connections with North West."

Rupertsland has benefited from the distributions it has received from the Fund and the appreciation it has seen in the units. But more important over the longer term for both Rupertsland and North West is the strengthening of the connection between the Company and its communities. "It gives us an important stake in the retail sector in our communities and it brings North West even closer to the customers," says Allan. "We can help each other in hiring, training, business strategy and selling. It's a nice circle."

Allan McLeod, President and CEO  
*Rupertsland Holdings Inc.*, Winnipeg, Manitoba

*"They can take care of their business, expand and pay higher distributions, while reducing their borrowing."*

## A PASSION FOR THE NORTH, A CORNERSTONE FOR INCOME

When Jim Morlock stopped practising law a few years ago and looked at retirement, he had a problem. No income. Jim had investments, but he had no pension.

He began researching unit trusts and the income they offered, and he was drawn to the North West Company Fund. "I know and love the North so it was a natural," says Jim. "The more I found out about North West and the people there, the more I liked it."

He's visited Northern stores in Iqaluit and Baker Lake. "They look so much better than the competition, you feel a sense of pride," he says. But his investment decisions aren't based on sentiment. Jim does his homework. "They've done a great job reducing inventories by developing merchandise alliances, and I'm impressed at how quickly they've produced positive cash flows from new Giant Tiger stores. I like the fact they can take care of their business, expand and pay higher distributions, while reducing their borrowing."

Today, the Fund is a cornerstone holding for Jim. He started buying units a few years ago when they traded at less than half the current price, and the annual distribution has increased significantly.

Jim Morlock, Private Investor  
Toronto, Ontario





*"In the North, they're as strong as Wal-Mart, except they operate in the fastest-growing population areas."*



## EARNING INVESTORS' TRUST DEMANDS DISCIPLINE

Running a large income trust portfolio is not a simple job. Today, there are literally hundreds of these investments to choose from—from the oil and gas business to real estate, restaurants, hothouse tomatoes, water heaters and peat moss.

"We look for unit trusts that display strong fundamental characteristics," says Sandy McIntyre, Vice-President and Senior Portfolio Manager with *Sentry Select Capital Corp.*, in Toronto, Ontario. Sentry Select has a strong track record and manages more than \$2.3 billion in investor funds.

"We like trusts that show discipline with their cash flow, that are careful to reinvest in their business and have room to grow." Sentry Select has become one of the largest investors in the North West Company Fund, owning more than 5% of the outstanding units, or more than \$20 million worth.

"Most companies show little responsibility toward the investor," says Sandy. "They invest their cash more to suit themselves than on behalf of investors. But North West gets it. They take care of their business, and I feel they look after the money we have invested. In the North, they're as strong as *Wal-Mart*, except they operate in the fastest-growing population areas."

Sandy McIntyre, Vice-President and Senior Portfolio Manager  
*Sentry Select Capital Corp.*, Toronto, Ontario





# Structured for Building Better Returns

**The Fund** The North West Company Fund (the Fund) was created on March 27, 1997 when the shareholders of The North West Company Inc. (the Company) exchanged their shares for 100% of the issued units of the Fund. Shareholders recognized the advantages of an income trust structure based on the Company's stable operating track record. The benefits of the Fund structure included increased cash distributions to unitholders, improved unitholder value and the enhanced ability of the Fund to raise capital for growth. Distributions of interest paid by the Company to the Fund and through to unitholders resulted in a tax saving to the Company. This tax saving and the positive trend in cash flow from operations of the Fund have permitted growing distributions to unitholders. The Company's tax saving per unit on interest paid to the Fund was \$0.57 for the 2004 fiscal year. The Fund's ability to provide stable and growing cash flow from operations has resulted in its market capitalization growing 158% since conversion to \$500 million at January 29, 2005. The increased unit value and trading volumes have benefited unitholders, while the improved equity position has enhanced the Fund's ability to expand.

**Capital Structure of the Company** The Fund holds \$205.0 million in subordinated notes of the Company, at a weighted average interest rate of 12.6%. The maximum total distribution from the interest on the notes, net of fund expenses, is \$1.56 per unit. Additional distributions are made from dividends paid to the Fund by the Company. The Fund owns all of the shares of the Company.

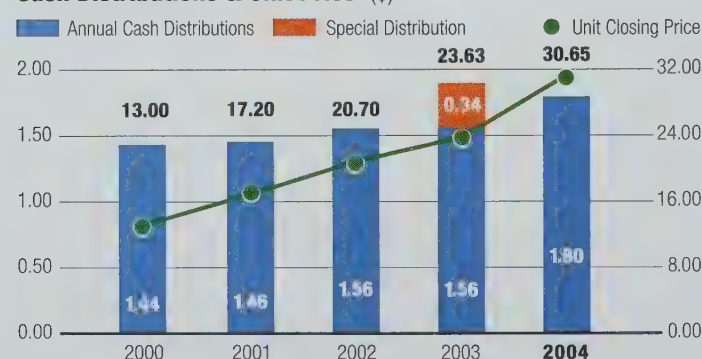
**Cash Paid Out & Reinvested** The following table outlines the cash flow from operations per unit and the amounts distributed and reinvested over the past five years. Distributions have increased from \$1.44 per unit in 2000 to \$1.80 per unit in 2004. A special one-time distribution of \$0.34 per unit is included in the 2003 distributions. The Company has reinvested over 50% of cash flow from operations.

| Fiscal year                                    | 2000 | 2001 | 2002 | 2003 | 2004        |
|------------------------------------------------|------|------|------|------|-------------|
| Cash flow from operations/unit \$ <sup>1</sup> | 3.21 | 3.74 | 3.67 | 3.65 | <b>3.89</b> |
| Payout \$                                      | 1.44 | 1.46 | 1.56 | 1.90 | <b>1.80</b> |
| Payout %                                       | 44.9 | 39.0 | 42.5 | 52.1 | <b>46.3</b> |
| Reinvested \$                                  | 1.77 | 2.28 | 2.11 | 1.75 | <b>2.09</b> |

<sup>1</sup> For 2002 to 2004, the total number of units outstanding throughout the year was used to calculate cash flow from operations/unit \$. Units held by management as part of the Unit Purchase Loan Plan were not deducted from the total number of units outstanding.

**Distributions** The policy of the Fund is to annually distribute about 50% of operating cash flow. This policy is based on the Company's short and long-term capital requirements, its stable earnings and its strong balance sheet. During 2004, unitholders received quarterly cash distributions of \$0.45 per unit. Quarterly cash distributions of \$0.47 per unit are expected for 2005, payable to unitholders of record at the end of March, June, September and December, and distributed by the fifteenth of the following month.

## Cash Distributions & Unit Price (\$)





## Management's Responsibility for Financial Statements

The management of North West Company Fund and The North West Company Inc. are responsible for the preparation, presentation and integrity of the accompanying summarized financial statements and all other information in this annual report. The summarized consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and include certain amounts that are based on the best estimates and judgment by management.

In order to meet its responsibility and ensure integrity of financial reporting, management has established a code of business ethics, and maintains appropriate internal controls and accounting systems. The summarized consolidated financial statements and all other information in this annual report should be read in conjunction with the audited consolidated financial statements and Management's Discussion & Analysis.

PricewaterhouseCoopers LLP, an independent firm of auditors appointed by the unitholders, have completed their audit and submitted their report.



Edward S. Kennedy

PRESIDENT & CEO, THE NORTH WEST COMPANY INC.



Léo P. Charrière

EXECUTIVE VICE-PRESIDENT, CFO & SECRETARY, NORTH WEST COMPANY FUND

MARCH 16, 2005

**PRICEWATERHOUSECOOPERS** 

## Auditor's Report on Summarized Financial Statements

To the Unitholders of North West Company Fund:

The accompanying summarized consolidated balance sheets and statements of earnings and retained earnings and cash flows are derived from the complete consolidated financial statements of North West Company Fund as at January 29, 2005 and January 31, 2004 and for the years then ended on which we expressed an opinion without reservation in our report dated March 16, 2005. The fair summarization of the complete financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of The Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

In our opinion, the accompanying financial statements fairly summarize, in all material respects, the related complete consolidated financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the entity's financial position, results of operations and cash flows, reference should be made to the related complete consolidated financial statements.



CHARTERED ACCOUNTANTS  
WINNIPEG, CANADA

MARCH 16, 2005

# Consolidated Balance Sheets

(\$ in thousands)

January 29, 2005 January 31, 2004

## ASSETS

### Current assets

|                     |                  |           |
|---------------------|------------------|-----------|
| Cash                | <b>\$ 11,438</b> | \$ 16,627 |
| Accounts receivable | <b>69,040</b>    | 59,414    |
| Inventories         | <b>122,034</b>   | 114,790   |
| Prepaid expenses    | <b>2,663</b>     | 3,083     |
| Future income taxes | <b>2,467</b>     | 2,916     |

**207,642** 196,830

Property and equipment

**186,104** 192,395

Other assets

**11,959** 12,153

Future income taxes

**7,932** 8,222

**\$413,637** \$409,600

## LIABILITIES

### Current liabilities

|                                          |                  |           |
|------------------------------------------|------------------|-----------|
| Bank advances and short-term notes       | <b>\$ 32,023</b> | \$ 30,313 |
| Accounts payable and accrued liabilities | <b>51,776</b>    | 50,306    |
| Income taxes payable                     | <b>3,539</b>     | 1,881     |
| Current portion of long-term debt        | <b>106</b>       | 640       |

**87,444** 83,140

Long-term debt

**88,803** 96,949

Asset retirement obligations

**1,105** 1,033

**177,352** 181,122

## EQUITY

|                                             |                |         |
|---------------------------------------------|----------------|---------|
| Capital                                     | <b>165,205</b> | 165,205 |
| Unit purchase loan plan                     | <b>(4,429)</b> | (3,650) |
| Retained earnings                           | <b>70,560</b>  | 61,679  |
| Cumulative currency translation adjustments | <b>4,949</b>   | 5,244   |

**236,285** 228,478

**\$413,637** \$409,600

Approved by the Trustees and Board



Ian Sutherland TRUSTEE & DIRECTOR



Edward S. Kennedy DIRECTOR

All financial data was summarized from and should be read in conjunction with the audited consolidated financial statements included in the Management's Discussion & Analysis and Consolidated Financial Statements report which is available through SEDAR at [www.sedar.com](http://www.sedar.com) or the Company's website at [www.northwest.ca](http://www.northwest.ca)



# Consolidated Statements of Earnings & Retained Earnings

| (\$ in thousands)                                                        | 52 Weeks Ended<br>January 29, 2005 | 53 Weeks Ended<br>January 31, 2004 |
|--------------------------------------------------------------------------|------------------------------------|------------------------------------|
| <b>SALES</b>                                                             | <b>\$ 788,693</b>                  | <b>\$ 782,720</b>                  |
| Cost of sales, selling and administrative expenses                       | <b>(712,087)</b>                   | <b>(709,894)</b>                   |
| Net earnings before amortization, interest and income taxes              | <b>76,606</b>                      | <b>72,826</b>                      |
| Amortization                                                             | <b>(23,905)</b>                    | <b>(22,401)</b>                    |
| Interest, including interest on long-term debt of \$4,821 (2003 \$5,495) | <b>52,701</b><br><b>(5,761)</b>    | <b>50,425</b><br><b>(6,299)</b>    |
| Provision for income taxes                                               | <b>46,940</b><br><b>(9,675)</b>    | <b>44,126</b><br><b>(8,396)</b>    |
| <b>NET EARNINGS FOR THE YEAR</b>                                         | <b>37,265</b>                      | <b>35,730</b>                      |
| Retained earnings, beginning of year as previously reported              | <b>61,679</b>                      | <b>52,165</b>                      |
| Accounting changes                                                       | <b>—</b>                           | <b>(1,144)</b>                     |
| Retained earnings as restated                                            | <b>98,944</b>                      | <b>86,751</b>                      |
| Distributions                                                            | <b>(28,384)</b>                    | <b>(25,072)</b>                    |
| <b>RETAINED EARNINGS, END OF YEAR</b>                                    | <b>\$ 70,560</b>                   | <b>\$ 61,679</b>                   |
| <b>NET EARNINGS PER UNIT</b>                                             |                                    |                                    |
| Basic                                                                    | <b>\$ 2.34</b>                     | <b>\$ 2.24</b>                     |
| Diluted                                                                  | <b>\$ 2.32</b>                     | <b>\$ 2.22</b>                     |

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# Consolidated Statements of Cash Flows

| (\$ in thousands)                                    | 52 Weeks Ended<br>January 29, 2005 | 53 Weeks Ended<br>January 31, 2004 |
|------------------------------------------------------|------------------------------------|------------------------------------|
| <b>CASH PROVIDED BY (USED IN)</b>                    |                                    |                                    |
| <b>Operating Activities</b>                          |                                    |                                    |
| Net earnings for the year                            | \$ 37,265                          | \$ 35,730                          |
| Non-cash items                                       |                                    |                                    |
| Amortization                                         | 23,905                             | 22,401                             |
| Future income taxes                                  | 636                                | 2,789                              |
| Pension (credit) expense                             | (352)                              | (637)                              |
| Amortization of deferred financing costs             | 186                                | 186                                |
| Loss (Gain) on disposal of property<br>and equipment | 1,158                              | (1,583)                            |
| Cash flow from operations                            | 62,798                             | 58,886                             |
| Change in other non-cash items                       | (13,873)                           | 7,894                              |
| Operating activities                                 | 48,925                             | 66,780                             |
| <b>Investing Activities</b>                          |                                    |                                    |
| Purchase of property and equipment                   | (22,323)                           | (33,273)                           |
| Proceeds from disposal of property<br>and equipment  | 694                                | 3,070                              |
| Investing activities                                 | (21,629)                           | (30,203)                           |
| <b>Financing Activities</b>                          |                                    |                                    |
| Change in bank advances and short-term notes         | 1,885                              | 2,475                              |
| Net purchase of units for unit purchase loan plan    | (779)                              | (285)                              |
| Repayment of long-term debt                          | (4,486)                            | (1,952)                            |
| Distributions                                        | (29,105)                           | (30,639)                           |
| Financing activities                                 | (32,485)                           | (30,401)                           |
| <b>NET CHANGE IN CASH</b>                            | <b>(5,189)</b>                     | <b>6,176</b>                       |
| Cash, beginning of year                              | 16,627                             | 10,451                             |
| <b>CASH, END OF YEAR</b>                             | <b>\$ 11,438</b>                   | <b>\$ 16,627</b>                   |
| Supplemental disclosure of cash paid for:            |                                    |                                    |
| Interest expense                                     | \$ 6,076                           | \$ 6,410                           |
| Income taxes                                         | 7,453                              | 4,513                              |

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# Eleven-Year Financial Summary

| Fiscal Year<br>(\$ in thousands)                                          | 2004<br>52 weeks | 2003<br>53 weeks | 2002<br>52 weeks | 2001<br>52 weeks | 2000<br>52 weeks |
|---------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Consolidated Statements of Earnings</b>                                |                  |                  |                  |                  |                  |
| Sales—Canadian Operations                                                 | \$ 629,822       | \$ 615,661       | \$ 565,747       | \$ 532,349       | \$ 502,756       |
| Sales—Alaskan Operations                                                  | 158,871          | 167,059          | 184,012          | 171,694          | 156,276          |
| Sales—Total                                                               | 788,693          | 782,720          | 749,759          | 704,043          | 659,032          |
| Trading Profit (EBIUTDA) <sup>1</sup> —Canadian Operations                | 62,629           | 57,663           | 59,163           | 60,337           | 54,534           |
| Trading Profit (EBIUTDA) <sup>1</sup> —Alaskan Operations                 | 13,977           | 15,163           | 13,108           | 10,198           | 9,352            |
| Trading Profit (EBIUTDA) <sup>1</sup> —Total Operations                   | 76,606           | 72,826           | 72,271           | 70,535           | 63,886           |
| Amortization—Canadian Operations                                          | 19,977           | 18,413           | 18,976           | 19,301           | 18,568           |
| Amortization—Alaskan Operations                                           | 3,928            | 3,988            | 3,696            | 3,393            | 2,987            |
| Amortization—Total                                                        | 23,905           | 22,401           | 22,672           | 22,694           | 21,555           |
| Unusual item                                                              | —                | —                | —                | —                | —                |
| Interest                                                                  | 5,761            | 6,299            | 6,681            | 10,501           | 13,236           |
| Income tax provision (recovery)                                           | 9,675            | 8,396            | 8,449            | 8,325            | 961              |
| Net earnings (loss)                                                       | 37,265           | 35,730           | 34,469           | 29,015           | 28,134           |
| Cash flow from operations                                                 | 62,798           | 58,886           | 59,184           | 55,773           | 47,782           |
| Distributions/Dividends paid during the year                              | 29,105           | 30,639           | 25,157           | 21,375           | 21,446           |
| Cash flow from operations after distributions/dividends                   | 33,693           | 28,247           | 34,027           | 34,398           | 26,336           |
| Capital expenditures                                                      | 22,323           | 33,273           | 20,128           | 20,427           | 19,133           |
| Net change in cash                                                        | (5,189)          | 6,176            | 475              | 1,388            | (1,567)          |
| <b>Consolidated Balance Sheets</b>                                        |                  |                  |                  |                  |                  |
| Current assets                                                            | \$ 207,642       | \$ 196,830       | \$ 209,900       | \$ 219,956       | \$ 192,250       |
| Property and equipment                                                    | 186,104          | 192,395          | 188,194          | 194,025          | 194,448          |
| Other assets                                                              | 11,959           | 12,153           | 10,775           | 9,836            | 10,055           |
| Future income taxes                                                       | 7,932            | 8,222            | 9,322            | 9,358            | 19,212           |
| Current liabilities                                                       | 87,444           | 83,140           | 91,995           | 204,017          | 100,886          |
| Long-term debt and other liabilities                                      | 89,908           | 97,982           | 106,812          | 9,634            | 124,106          |
| Equity                                                                    | 236,285          | 228,478          | 219,384          | 219,524          | 190,973          |
| <b>Consolidated per Unit/Share (\$)</b>                                   |                  |                  |                  |                  |                  |
| Net earnings (loss) before unusual item—basic                             | \$ 2.34          | \$ 2.24          | \$ 2.15          | \$ 1.95          | \$ 1.89          |
| Net earnings (loss)—diluted                                               | 2.32             | 2.22             | 2.14             | 1.95             | 1.89             |
| Trading profit <sup>2</sup>                                               | 4.81             | 4.57             | 4.51             | 4.74             | 4.29             |
| Cash flow from operations <sup>2</sup>                                    | 3.95             | 3.69             | 3.70             | 3.74             | 3.21             |
| Distributions paid in cash during the year                                | 1.80             | 1.90             | 1.56             | 1.46             | 1.44             |
| Distributions paid in units during the year                               | 0.00             | 0.00             | 0.00             | 0.00             | 0.00             |
| Dividends paid in cash during the year                                    | 0.00             | 0.00             | 0.00             | 0.00             | 0.00             |
| Cash flow from operations after cash distributions/dividends <sup>2</sup> | 2.15             | 1.79             | 2.14             | 2.28             | 1.77             |
| Equity at end of fiscal year (basic units outstanding)                    | 14.86            | 14.34            | 13.76            | 13.61            | 13.00            |
| Market price at January 31                                                | 30.65            | 23.63            | 20.70            | 17.20            | 13.00            |
| <b>Statistics at Year End</b>                                             |                  |                  |                  |                  |                  |
| Number of stores—Canadian                                                 | 158              | 156              | 154              | 153              | 153              |
| Number of stores—Alaskan                                                  | 25               | 25               | 25               | 24               | 24               |
| Selling square feet (000's) end of year—Canadian Stores                   | 1,093            | 1,106            | 1,070            | 1,050            | 1,019            |
| Selling square feet (000's) end of year—Alaskan Stores                    | 255              | 254              | 245              | 244              | 238              |
| Sales per average selling square foot—Canadian                            | \$ 573           | \$ 566           | \$ 534           | \$ 515           | \$ 499           |
| Sales per average selling square foot—Alaskan                             | \$ 624           | \$ 669           | \$ 752           | \$ 712           | \$ 661           |
| Number of employees—Canadian Operations                                   | 4,830            | 4,552            | 4,270            | 4,015            | 3,822            |
| Number of employees—Alaskan Operations                                    | 692              | 736              | 657              | 690              | 655              |
| Average units/shares outstanding (000's)                                  | 15,918           | 15,940           | 16,007           | 14,896           | 14,875           |
| Units/Shares outstanding at end of fiscal year (000's)                    | 15,900           | 15,933           | 15,948           | 16,126           | 14,691           |
| Units/Shares traded during the year (000's)                               | 7,393            | 7,207            | 7,617            | 4,776            | 4,843            |
| <b>Financial Ratios</b>                                                   |                  |                  |                  |                  |                  |
| Trading profit <sup>1</sup> (%)                                           | 9.7              | 9.3              | 9.6              | 10.0             | 9.7              |
| EBIUT <sup>3</sup> (%)                                                    | 6.7              | 6.4              | 6.6              | 6.8              | 6.4              |
| Total return on net assets before unusual item (%)                        | 14.8             | 14.1             | 13.4             | 12.7             | 11.5             |
| Return on average equity before unusual item (%)                          | 16.2             | 16.0             | 15.8             | 14.9             | 15.2             |
| Debt-to-equity                                                            | .51:1            | .56:1            | .62:1            | .69:1            | .92:1            |
| Distributions/Dividends as % of cash flow from operations                 | 46.3             | 52.1             | 42.5             | 38.3             | 44.9             |
| Inventory turnover (times)                                                | 4.2              | 4.1              | 3.7              | 3.3              | 3.3              |

1 Earnings before interest, unusual item, taxes and amortization

2 Based on average basic units outstanding

3 Earnings before interest, unusual item and taxes



| 1999<br>52 weeks                           | 1998<br>52 weeks | 1997<br>53 weeks | 1996<br>52 weeks | 1995<br>52 weeks | 1994<br>52 weeks | Fiscal Year<br>(\$ in thousands)                                          |
|--------------------------------------------|------------------|------------------|------------------|------------------|------------------|---------------------------------------------------------------------------|
| <b>Consolidated Statements of Earnings</b> |                  |                  |                  |                  |                  |                                                                           |
| \$ 478,508                                 | \$ 494,023       | \$ 497,997       | \$ 474,465       | \$ 470,306       | \$ 470,890       | Sales—Canadian Operations                                                 |
| 147,961                                    | 135,095          | 118,713          | 116,118          | 121,728          | 115,352          | Sales—Alaskan Operations                                                  |
| 626,469                                    | 629,118          | 616,710          | 590,583          | 592,034          | 586,242          | Sales—Total                                                               |
| 51,075                                     | 55,736           | 53,478           | 57,198           | 47,451           | 48,760           | Trading Profit (EBIUTDA) <sup>1</sup> —Canadian Operations                |
| 8,881                                      | 6,304            | 3,620            | 2,159            | 580              | 1,877            | Trading Profit (EBIUTDA) <sup>1</sup> —Alaskan Operations                 |
| 59,956                                     | 62,040           | 57,098           | 59,357           | 48,031           | 50,637           | Trading Profit (EBIUTDA) <sup>1</sup> —Total Operations                   |
| 17,287                                     | 16,739           | 15,525           | 14,181           | 12,535           | 10,377           | Amortization—Canadian Operations                                          |
| 2,860                                      | 2,470            | 1,986            | 1,968            | 2,636            | 1,828            | Amortization—Alaskan Operations                                           |
| 20,147                                     | 19,209           | 17,511           | 16,149           | 15,171           | 12,205           | Amortization—Total                                                        |
| —                                          | 20,000           | —                | —                | 16,129           | —                | Unusual item                                                              |
| 11,701                                     | 13,714           | 12,298           | 11,843           | 12,548           | 10,472           | Interest                                                                  |
| 151                                        | (7,028)          | 6,252            | 13,507           | 9,355            | 11,721           | Income tax provision (recovery)                                           |
| 27,957                                     | 16,145           | 21,037           | 17,858           | (5,172)          | 16,239           | Net earnings (loss)                                                       |
| 44,854                                     | 52,110           | 35,992           | 30,587           | 23,966           | 26,173           | Cash flow from operations                                                 |
| 21,600                                     | 18,750           | 8,925            | 6,094            | 6,466            | 6,304            | Distributions/Dividends paid during the year                              |
| 23,254                                     | 33,360           | 27,067           | 24,493           | 17,500           | 19,869           | Cash flow from operations after distributions/dividends                   |
| 22,777                                     | 18,328           | 28,818           | 22,994           | 29,745           | 58,476           | Capital expenditures                                                      |
| (1,481)                                    | 1,260            | 6,967            | (1,759)          | (1,285)          | (683)            | Net change in cash                                                        |
| <b>Consolidated Balance Sheets</b>         |                  |                  |                  |                  |                  |                                                                           |
| \$ 176,164                                 | \$ 174,137       | \$ 213,659       | \$ 184,836       | \$ 185,932       | \$ 204,253       | Current assets                                                            |
| 195,429                                    | 197,310          | 198,074          | 184,268          | 179,651          | 179,822          | Property and equipment                                                    |
| 12,351                                     | 13,045           | 13,403           | 14,632           | 10,364           | 8,359            | Other assets                                                              |
| 3,593                                      | 2,919            | (9,102)          | (8,570)          | (9,587)          | (10,930)         | Future income taxes                                                       |
| 92,486                                     | 90,723           | 121,398          | 92,585           | 83,671           | 135,591          | Current liabilities                                                       |
| 125,146                                    | 132,571          | 134,476          | 135,228          | 142,736          | 85,939           | Long-term debt and other liabilities                                      |
| 169,905                                    | 164,117          | 160,160          | 147,353          | 139,953          | 159,974          | Equity                                                                    |
| <b>Consolidated per Unit/Share (\$)</b>    |                  |                  |                  |                  |                  |                                                                           |
| \$ 1.86                                    | \$ 1.82          | \$ 1.40          | \$ 1.18          | \$ 0.68          | \$ 1.00          | Net earnings (loss) before unusual item—basic                             |
| 1.86                                       | 1.08             | 1.40             | 1.18             | (0.32)           | 1.00             | Net earnings (loss)—diluted                                               |
| 4.00                                       | 4.14             | 3.81             | 3.93             | 2.99             | 3.13             | Trading profit <sup>2</sup>                                               |
| 2.99                                       | 3.47             | 2.40             | 2.03             | 1.49             | 1.62             | Cash flow from operations <sup>2</sup>                                    |
| 1.44                                       | 1.00             | 0.40             | 0.00             | 0.00             | 0.00             | Distributions paid in cash during the year                                |
| 0.00                                       | 0.25             | 0.00             | 0.00             | 0.00             | 0.00             | Distributions paid in units during the year                               |
| 0.00                                       | 0.00             | 0.20             | 0.40             | 0.40             | 0.39             | Dividends paid in cash during the year                                    |
| 1.55                                       | 2.47             | 1.80             | 1.63             | 1.09             | 1.23             | Cash flow from operations after cash distributions/dividends <sup>2</sup> |
| 11.33                                      | 10.94            | 10.68            | 9.82             | 9.02             | 9.90             | Equity at end of fiscal year (basic units outstanding)                    |
| 12.00                                      | 15.60            | 14.00            | 11.00            | 8.00             | 9.88             | Market price at January 31                                                |
| <b>Statistics at Year End</b>              |                  |                  |                  |                  |                  |                                                                           |
| 153                                        | 151              | 163              | 160              | 161              | 164              | Number of stores—Canadian                                                 |
| 25                                         | 23               | 28               | 27               | 28               | 28               | Number of stores—Alaskan                                                  |
| 998                                        | 990              | 1,063            | 1,026            | 1,009            | 1,004            | Selling square feet (000's) end of year—Canadian Stores                   |
| 235                                        | 229              | 227              | 229              | 223              | 223              | Selling square feet (000's) end of year—Alaskan Stores                    |
| \$ 481                                     | \$ 481           | \$ 477           | \$ 466           | \$ 467           | \$ 482           | Sales per average selling square foot—Canadian                            |
| \$ 638                                     | \$ 592           | \$ 520           | \$ 513           | \$ 545           | \$ 622           | Sales per average selling square foot—Alaskan                             |
| 3,787                                      | 3,823            | 4,004            | 3,725            | 3,779            | 3,728            | Number of employees—Canadian Operations                                   |
| 655                                        | 635              | 685              | 645              | 704              | 640              | Number of employees—Alaskan Operations                                    |
| 15,000                                     | 15,000           | 15,000           | 15,095           | 16,040           | 16,164           | Average units/shares outstanding (000's)                                  |
| 15,000                                     | 15,000           | 15,000           | 15,000           | 15,519           | 16,164           | Units/Shares outstanding at end of fiscal year (000's)                    |
| 2,795                                      | 4,606            | 6,195            | 6,862            | 5,873            | 3,691            | Units/Shares traded during the year (000's)                               |
| <b>Financial Ratios</b>                    |                  |                  |                  |                  |                  |                                                                           |
| 9.6                                        | 9.9              | 9.3              | 10.1             | 8.1              | 8.6              | Trading profit <sup>1</sup> (%)                                           |
| 6.4                                        | 6.8              | 6.4              | 7.3              | 5.6              | 6.6              | EBIUT <sup>3</sup> (%)                                                    |
| 11.6                                       | 12.1             | 11.4             | 13.4             | 9.8              | 12.4             | Total return on net assets before unusual item (%)                        |
| 16.8                                       | 17.6             | 13.9             | 12.7             | 7.0              | 10.6             | Return on average equity before unusual item (%)                          |
| 1.01:1                                     | 1.06:1           | 1.26:1           | 1.19:1           | 1.27:1           | 1.10:1           | Debt-to-equity                                                            |
| 48.2                                       | 36.0             | 24.8             | 19.9             | 27.0             | 24.1             | Distributions/Dividends as % of cash flow from operations                 |
| 3.4                                        | 3.1              | 3.0              | 3.0              | 2.8              | 2.8              | Inventory turnover (times)                                                |

1 Earnings before interest, unusual item, taxes and amortization

2 Based on average basic units outstanding

3 Earnings before interest, unusual item and taxes



# Independence & Integrity— Adhering to the NWF Tradition of Strong Values

The Company has a system of corporate governance, as summarized below, which is in compliance with the guidelines set out by the Toronto Stock Exchange.

**The mandate of the Board** is to supervise the management of the business and the affairs of the Company, to act in the Company's best interest and to exercise the care, skill and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling its mandate, the Board is responsible for, among other things, the following:

1. The adoption of a strategic planning process;
2. Identification of the principal risks of the Company's business and ensuring the implementation of the appropriate systems to manage these risks;
3. Succession planning, which includes appointing, training and monitoring senior management;
4. Ensuring that an effective unitholder and investor relations communications program is in place;
5. The integrity of internal controls and management information systems; and
6. The review and evaluation of operations, results and action plans, and the assessment of the performance of the chief executive officer.

Complete disclosure of North West Company Fund's corporate governance is provided in the Company's Management Information Circular, which is available on the Canadian Securities Administrators' website at [www.SEDAR.com](http://www.SEDAR.com) or in the investor section of The North West Company's website at [www.northwest.ca](http://www.northwest.ca).



*"Board members have always governed themselves with the independence and integrity that one would expect from the NWF tradition for adhering to its strong values."*

ANDERSON, AND CHAPMAN THE NORTH WEST COMPANY INC. TRUSTEE, NORTH WEST COMPANY FUND







## THE NORTH WEST COMPANY INC. OFFICERS

(NOT SHOWN)

Ian Sutherland  
*Chairman*

Edward S. Kennedy  
*President & CEO*

### ◀ LEFT TO RIGHT

Léo P. Charrière  
*Executive Vice-President, CFO & Secretary*

Karen J. Milani  
*Vice-President, Human Resources*

Carl A. McKay  
*Executive Vice-President, Northern Canada Retail*

Scott A. McKay  
*Vice-President & General Manager,  
Giant Tiger West Retail*

### ▲ LEFT TO RIGHT

Leonard G. Flett (FRONT)  
*Vice-President, Store Development & Public Affairs*

Scott F. Findlay  
*Vice-President & General Manager,  
Food Procurement & Wholesaling*

Kenneth M. Claudel  
*Vice-President, Logistics & Supply Chain Services*

Gerald L. Mauthe  
*Vice-President, Information Services*

## NORTH WEST COMPANY FUND OFFICERS

Edward S. Kennedy  
*President & CEO*

Léo P. Charrière  
*Executive Vice-President, CFO & Secretary*

Reinhard Sedlacek  
*Treasurer*

## PRINCIPAL SUBSIDIARY COMPANY NWC (U.S.) HOLDINGS INC.

## PRINCIPAL SUBSIDIARY COMPANY OF NWC (U.S.) HOLDINGS INC. ALASKA COMMERCIAL COMPANY

### LEFT TO RIGHT ►

Edward S. Kennedy<sup>1,2</sup> (FRONT)  
*Chairman & CEO*

Gerald H. Bittner<sup>1</sup>

Rex A. Wilhelm<sup>1,2</sup>  
*President*

Léo P. Charrière<sup>1,2</sup> (NOT SHOWN)  
*CFO & Secretary*

Reinhard Sedlacek<sup>2</sup> (NOT SHOWN)  
*Treasurer*

### LEFT TO RIGHT ▼

Henry J. Baldwin II<sup>2</sup> (FRONT)  
*Vice-President, Human Resources & Logistics*

Rex A. Wilhelm<sup>1,2</sup>  
*President*

Robert S. Galosich<sup>2</sup>  
*Vice-President, Wholesale Operations*

Benjamin C. Platt<sup>2</sup>  
*Vice-President, Marketing*

Walter E. Pickett<sup>2</sup>  
*Vice-President, Store Operations*

R. Grant Hodge<sup>1</sup> (NOT SHOWN)  
*Advisor, Store Operations*

1 DIRECTOR 2 OFFICER





# NWC Directors & NWF Trustees

## THE NORTH WEST COMPANY INC. DIRECTORS

Ian Sutherland  
Edward S. Kennedy  
Donald A. Beaumont  
Frank J. Coleman  
Robert J. Kennedy  
Gary J. Lukassen  
Keith G. Martell  
James G. Osborne  
H. Sanford Riley

## NORTH WEST COMPANY FUND TRUSTEES

Ian Sutherland  
Kevin R. Bolt  
David G. Broadhurst

1. Corporate Governance & Nominating
2. Audit
3. Human Resources & Compensation
4. Pension



LEFT TO RIGHT

**Ian Sutherland** 60 Chairman of the Board of NWC since 1997; CEO of NWC from 1993 to 1997. For most of his career, he has been an officer of MCAP Inc. and its predecessor The Mutual Trust Company. Director, MCAP Inc., MCAP Commercial Limited Partnership, Clearlink Capital Corporation, Strongco Inc. and Transport Nanuk Inc. NWC Director since he participated in the founding of the Company and the purchase of Northern Stores from the Hudson's Bay Company in 1987. NWF Trustee since 1997.

**Donald A. Beaumont** 70 President of Beaumont & Associates Retail Consultants since 1996; President and CEO of Kmart Canada Ltd. from 1991 to 1996. Advisory Board of Communitech Inc. NWC Director since 1996.

**Kevin R. Bolt** 52 Partner at Aikins, MacAulay & Thorvaldson since 1998; Senior Partner at Pitblado & Hoskin from 1985 to 1998. NWF Trustee since 1997.

**Edward S. Kennedy** 45 (NOT SHOWN) President and CEO of NWC and Chairman and CEO of the Alaska Commercial Company (AC) since 1997; Executive Vice-President of NWC and Chairman and CEO of AC from 1995 to 1997; Executive Vice-President and COO of NWC from 1993 to 1995; Vice-President of Corporate Development, Counsel and Secretary of NWC from 1989 to 1993. Director, Balmoral Hall School, Alaska Commercial Company, Transport Nanuk Inc. and Northwest Transport Ltd. NWC Director since 1996.



**Robert J. Kennedy** 55 CEO, WiBand Communications Corp. since 1999; Worldwide Business Development Executive of the IBM Corporation from 1997 to 1999; CEO and founder of PBSC Computer Training Centres from 1985 to 1997; CEO and founder of ComputerLand Western Canada from 1978 to 1987. Director, Jazz Golf Equipment Inc. NWC Director since 2003.

**H. Sanford Riley** 54 President and CEO of Richardson Financial Group Limited since 2003; Chairman of Investors Group Inc. from 2001 to 2003; President and CEO of Investors Group Inc. from 1992 to 2001. Chancellor of the University of Winnipeg; Chairman, University of Winnipeg Foundation. Director, Molson Coors Brewing Company and James Richardson & Sons affiliated companies. NWC Director since 2003.

**Gary J. Lukassen** 61 Executive Vice-President and Chief Financial Officer of the Hudson's Bay Company (HBC) from 1989 until his retirement in 2001; Director of the HBC from 1987 to 2001; Senior Vice-President, Finance and Administration of the HBC from 1987 to 1989. Director, Stelco Inc., Abitibi Consolidated Inc. and Spinrite Income Fund. NWC Director since 1987.

**Frank J. Coleman** 51 President and CEO of the Coleman Group of Companies since 1989. Director, Fishery Products International, Canadian Council of Grocery Distributors and United Grocers Inc. NWC Director since 1999.



**David G. Broadhurst** 63 President of Poynton Investments Limited; President and COO of Reeve Court Insurance Limited (Bermuda) from 1998 to 2001; Investment Banker with First Marathon Securities Limited from 1996 to 1998; previously spent his entire career with PriceWaterhouse Canada retiring in 1996 as the Senior Tax Partner. Director, MCAP Inc. and Gerbro Inc. NWF Trustee since 1997.

**James G. Osborne** 63 After 25 years as an Investment Dealer working in research, corporate finance, sales and branch management with two national firms, he has been Chairman of the Westgate Capital Group and Managing Partner of the Vision Capital Fund LP since 1990. Chairman, the University of Winnipeg Pension Committee. Director, Jazz Golf Equipment Inc., Faneuil Group Inc. and MDS Capital Corporation. NWC Director since 1987.

**Keith G. Martell** 42 Chairman of the First Nations Bank of Canada since 1997; Executive Director of Finance of the Federation of Saskatchewan Indian Nations from 1994 to 1997; Chartered Accountant with KPMG from 1985 to 1994. Director, Saskatchewan Institute of Applied Sciences and Technology, Public Sector Pension Investment Board of Canada, St. Paul's Hospital Foundation, Flying Dust First Nation TLE Trust and Primrose Lake Settlement Trust. NWC Director since 2000.

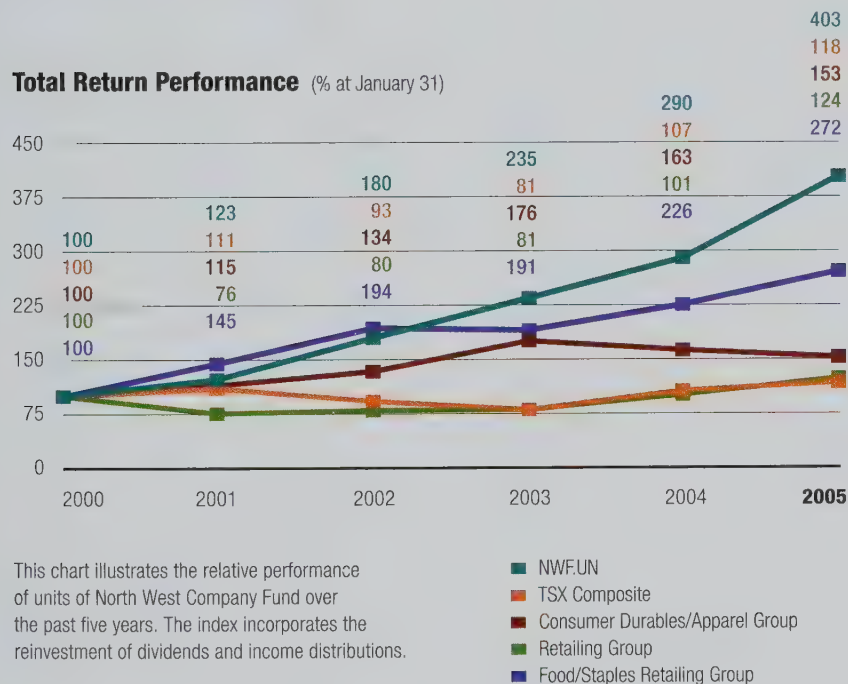


# Unitholder Information

## Quarterly History

| Fiscal Year      | Unit Price High | Unit Price Low  | Unit Price Close | Volume           | EPU *          |
|------------------|-----------------|-----------------|------------------|------------------|----------------|
| <b>2004</b>      | <b>\$ 31.74</b> | <b>\$ 23.10</b> | <b>\$ 30.65</b>  | <b>7,392,594</b> | <b>\$ 2.32</b> |
| April 30, 2004   | 25.25           | 23.20           | 23.30            | 2,712,528        | 0.40           |
| July 31, 2004    | 26.34           | 23.10           | 23.61            | 1,607,521        | 0.58           |
| October 31, 2004 | 27.00           | 23.50           | 26.60            | 1,443,974        | 0.68           |
| January 31, 2005 | 31.74           | 26.21           | 30.65            | 1,628,571        | 0.66           |
| <b>2003</b>      | <b>\$ 25.50</b> | <b>\$ 20.87</b> | <b>\$ 23.63</b>  | <b>7,206,507</b> | <b>\$ 2.22</b> |
| April 30, 2003   | 23.00           | 20.87           | 22.70            | 1,346,702        | 0.35           |
| July 31, 2003    | 24.10           | 22.75           | 23.90            | 1,903,368        | 0.55           |
| October 31, 2003 | 25.45           | 22.50           | 23.98            | 2,190,157        | 0.66           |
| January 31, 2004 | 25.50           | 23.60           | 23.63            | 1,766,280        | 0.66           |
| <b>2002</b>      | <b>\$ 21.03</b> | <b>\$ 16.95</b> | <b>\$ 20.70</b>  | <b>7,616,932</b> | <b>\$ 2.14</b> |
| April 30, 2002   | 19.45           | 16.95           | 19.35            | 2,546,262        | 0.39           |
| July 31, 2002    | 20.44           | 18.01           | 19.70            | 1,734,717        | 0.57           |
| October 31, 2002 | 20.99           | 18.60           | 20.35            | 1,887,953        | 0.55           |
| January 31, 2003 | 21.03           | 19.51           | 20.70            | 1,448,000        | 0.63           |

\* Net earnings per unit on a diluted basis



## 2005 Financial Calendar Reporting Dates

First Quarter: June 9, 2005

Second Quarter: September 8, 2005

Third Quarter: December 8, 2005

Fourth Quarter: March 16, 2006

## North West Company Fund Distribution Dates

Record and Payable Date: March 31, 2005

Distributable Date: April 15, 2005

Record and Payable Date: June 30, 2005

Distributable Date: July 15, 2005

Record and Payable Date: September 30, 2005

Distributable Date: October 15, 2005

Record and Payable Date: December 31, 2005

Distributable Date: January 15, 2006

## Annual and Special Meeting

The Annual and Special Meeting of Unitholders of North West Company Fund will be held on Thursday, June 9, 2005 at 11:30 am in the Muriel Richardson Auditorium, Winnipeg Art Gallery, 300 Memorial Boulevard, Winnipeg, Manitoba.

## Transfer Agent and Registrar

CIBC Mellon Trust Company

Winnipeg and Toronto

Toll-free: 1 800 387 0825

[www.cibcmellon.ca](http://www.cibcmellon.ca)

## Stock Exchange Listing

The Toronto Stock Exchange

## Stock Symbol NWF.UN

TIN #: T 17 685 782

CUSIP #: 662906-10-6

Number of units outstanding at fiscal year end

on a diluted basis: 16,126,000

Average number of units outstanding in 2004

on a diluted basis: 16,126,000

## Auditors

PricewaterhouseCoopers LLP

## Bankers

The Toronto-Dominion Bank

Bank of Montreal

For additional copies of this report or for general information about the Fund or the Company, contact our Assistant Corporate Secretary, Reinhard Sedlacek.  
 Dial Direct: 204 934 1525  
 Fax: 204 934 1455  
 Email: [rsedlacek@northwest.ca](mailto:rsedlacek@northwest.ca)  
 Corporate Website: [www.northwest.ca](http://www.northwest.ca)



## RETAIL BANNERS



**133 Stores** Northern is a combination food and general merchandise store format located in remote, northern Canadian communities.



**24 Stores** AC Value Centers are retail outlets offering food and general merchandise to communities throughout rural Alaska.



**5 Stores** The NorthMart format is targeted at larger, regional markets and offers an expanded selection of fresh food and fashion merchandise.



**7 Stores** Quickstop convenience stores offer prepared foods, petroleum products and a full convenience assortment with a selection carefully tailored to local needs.



**10 Stores** Giant Tiger stores are operated under a master franchise agreement. Giant Tiger is a leading Canadian junior discount retailer.



Each year more than 240,000 copies of the *Selections* catalogue are distributed across northern Canada featuring everything from guitars and snowmobiles to computers.

## WHOLESALE DIVISIONS



Frontier Expeditors is one of the leading distributors of food and general merchandise to independent grocery stores in rural Alaska.



Crescent Multi Foods is a distributor of produce and fresh meats to independent grocery stores in Saskatchewan, Manitoba and northwestern Ontario.



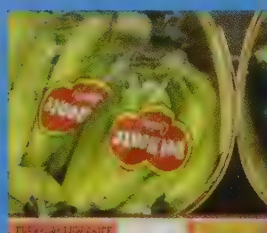
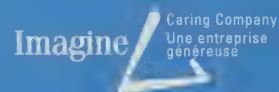
**3 Branches** These stores offer native handicrafts and authentic Canadian heritage products, as well as wild furs.



Canada's largest distributor of Inuit art offers an outstanding selection of carvings to galleries and boutiques.



*Our purpose is to enhance peoples' lives by offering them shopping choices that are more convenient, more affordable, more dependable or more lifestyle appropriate compared to any other retailer.*



**The North West Company Inc.**  
Gibraltar House, 77 Main Street  
Winnipeg, Manitoba Canada R3C 2R1  
T: 204 943 0881  
Toll-free: 1 800 563 0002  
Corporate Website: [www.northwest.ca](http://www.northwest.ca)



# Management's Discussion & Analysis and Consolidated Financial Statements





*Our purpose is to enhance peoples' lives by offering them shopping choices that are more convenient, more affordable, more dependable or more lifestyle appropriate compared to any other retailer.*





# Management's Discussion & Analysis and Consolidated Financial Statements

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**As of March 17, 2005** Unless otherwise stated, the financial data in this Management's Discussion & Analysis (MD&A) has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and is in Canadian dollars.

**Forward-Looking Statements** This MD&A contains forward-looking statements. These statements relate to, among other things, sales growth, expansion, capital expenditures and the Company's business strategy. Forward-looking statements are subject to uncertainties and risks. These include industry and economic conditions; changes in our relationship with our communities and suppliers; pricing pressure and other competitive factors; the availability and cost of merchandise, fuels and utilities; the results of our efforts to improve cost effectiveness; the rates of return on the Company's pension plan assets; changes in regulations; and the availability and terms of financing. Many of these risks are outlined in the Risk Management section of this MD&A. The Company's results and events may vary significantly from those included in, contemplated or implied by the forward-looking statements in this MD&A.

Additional information on the Company, including our Summary Annual Report, Annual Information Form and Management Information Circular, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.northwest.ca](http://www.northwest.ca).



# Management's Discussion & Analysis

## VISION AND CORE BUSINESSES

**Strong Values, Solid Returns** The North West Company (NWC) is a leading retailer and distributor of everyday consumer products and services to remote communities in northern Canada and Alaska and to rural towns and urban neighbourhoods in western Canada.

The Company's core strengths start with our unique understanding and experience in remote location retailing, our knowledge in serving Aboriginal customers and their communities and our ability to leverage these strengths to serve customers within other attractive niche markets.

Our purpose is to enhance peoples' lives by offering them shopping choices that are more convenient, more affordable, more dependable or more lifestyle appropriate compared to any other retailer. In striving to fulfill this purpose, we aim to:

- Continually enhance our strengths to maximize our core business's long-term profitability and enable related new growth opportunities;
- Actively support the communities in which we operate, contributing to their long-term development;
- Foster a spirit of enterprise and growth for our people, within a work environment characterized by respect, openness, encouragement, learning, innovation and reward for performance;
- Deliver stable top quartile total returns to our unitholders; and
- Demonstrate integrity in all facets of our business.

*The Company's stores have served northern Canada and Alaska, through predecessor companies, for more than 300 years.*

**The Largest Remote Retailer** The North West Company is the largest remote market retailer in North America with operations across northern Canada and rural Alaska. NWC's stores sell a broad range of products and services with an emphasis on food. Our value offer is to be the best local shopping choice for everyday household and northern lifestyle needs.

The Company's stores have served northern Canada and Alaska, through predecessor companies, for more than 300 years. These stores operate in markets with populations from 500 to 7,000. A typical store is 7,500 square feet in size and offers food, family apparel, housewares, appliances, outdoor products and special services like cheque cashing, catalogue ordering, money transfers and quick-service prepared food.

Since 2001, we have applied our expertise and infrastructure to new growth opportunities. These include wholesaling to independent stores and opening junior discount stores in rural communities and urban neighbourhoods in western Canada.

The North West Company operates the following retail banners and wholesale businesses in two reporting segments:

### Canadian Operations

- **133 Northern stores**, a combination food and general merchandise format in remote, northern Canadian communities;
- **10 Giant Tiger junior discount stores** offering family fashion, household products and food at convenient locations;
- **5 NorthMart stores**, targeted at larger, regional markets and offering an expanded selection of fashion merchandise and fresh food;
- **6 Quickstop convenience stores**, offering prepared foods, petroleum products and a full convenience assortment;
- **The Selections catalogue**, more than 240,000 of which are distributed each year across northern Canada, featuring everything from fashion and snowmobiles to computers and boats;
- **Crescent Multi Foods**, a distributor of produce and fresh meats to independent grocery stores in Saskatchewan, Manitoba and northwestern Ontario;
- **3 North West Company Fur Marketing Branches**, that offer native handicrafts and authentic Canadian heritage products, as well as wild furs; and
- **The Inuit Art Marketing Service**, Canada's largest distributor of Inuit art.

### U.S. Operations

- **24 AC Value Centers**, a combination food and general merchandise format in communities across rural Alaska;
- **1 Quickstop convenience store**, offering prepared foods, petroleum products and a full convenience assortment; and
- **Frontier Expeditors**, a distributor of food and general merchandise to independent grocery stores in rural Alaska.



## STRATEGIES

The Company completed a new long-term plan in March 2004. Our plans are typically developed in five-year cycles and are reviewed and adjusted through an annual operating plan. The long-term plan sets operating and financial goals and key strategies.

The Company's strategy is first to ensure that our core business—retailing in northern Canada and Alaska—continues to deliver both stability and growth in earnings. Second, we aim to take advantage of related new opportunities through Giant Tiger store growth in western Canada and expansion of our wholesaling and distribution businesses in western Canada and Alaska.

Our remote store banners have produced modest, but consistent, profit growth over the past decade or so. We have increased our share in food markets and have been successful in achieving margin rate gains by improving our assortments and sharpening our retail practices through training, use of new technology and other initiatives. We have further new product and service opportunities for growth in the North. This growth potential is partially offset by a lack of new store locations and erosion in some existing general merchandise categories due to increased outshopping alternatives.

We continue to develop local management and staff and are the largest private sector employer of Aboriginal people in Canada. The number of Aboriginal people in management positions has increased steadily from 61 in 1992 to 217 in 2004. We continue to build upon existing Aboriginal community relations and work closely with local Aboriginal corporations in our store development projects.

*Our remote store base provides us with the financial resources, stability and knowledge to pursue expansion into related opportunities.*

Our merchandising strategy for remote stores is to continue to grow same store food sales while adjusting our general merchandise sales base to achieve greater profitability. Our productivity focus is on continuing to improve our store capability through investments in store technology, improvements in work methods and processes and upgrading the skills of our store managers. We also target operational cost streamlining through these activities.

Our remote store base provides us with the financial resources, stability and knowledge to pursue expansion into related opportunities. Our new ventures, primarily the development of the Giant Tiger format across western Canada, are not capital intensive and our strategy has been, and continues to be, to pursue growth in a measured, careful manner. We are focusing our plans on areas where we have a high degree of confidence in the potential return, both long and short-term. We place a heavy weighting on new ideas, clear principles, execution and the ability to track performance.

Giant Tiger stores are a junior discount format offering trend-right apparel and hardlines merchandise, an everyday food product mix and convenient locations. The value offering focuses on new products, everyday low prices, being in stock on basics, community involvement and friendly service.

We have a 30-year exclusive franchise agreement with *Giant Tiger Stores Limited*, based in Ottawa, Ontario, to develop stores in western Canada. Under the agreement, *Giant Tiger Stores Limited* provides product sourcing, merchandising, information systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. We are responsible for developing and operating the stores, and for food procurement and distribution.

In 2004, three new stores were opened. We are focusing on recruiting and training store managers and field staff to support a faster roll-out beginning this year. We continue to find efficiencies to reduce the incremental freight-related cost of doing business in western Canada. We are also pursuing innovative real estate deal structures that ensure we can extract the traffic-generating value of our stores.

Our wholesaling and distribution expansion plans are centered on Crescent Multi Foods (CMF) in western Canada and Frontier Expeditors (FE) in Alaska.

Over the past few years, CMF sales have increased significantly as we have expanded our product range, centralized meat procurement and distribution for our core business in western Canada, and relocated to an expanded facility. We will continue to expand CMF's capabilities and assess its potential for a larger presence serving the western Canadian independent wholesale market.

We see potential to continue winning market share for FE in rural Alaska. FE is one of two food distributors in the state with a local warehouse facility. We see an opportunity to double its size within five years through a combination of internal growth and acquisitions.

*We continue to develop local management and staff and are the largest private sector employer of Aboriginal people in Canada.*



## KEY PERFORMANCE DRIVERS AND CAPABILITIES TO DELIVER RESULTS

**The ability to protect and enhance the profitability of our remote store banners.** These stores represent about 95% of our profitability. We expect to reduce this percentage over the next few years as we expand the Giant Tiger format across western Canada and grow our wholesale and distribution businesses. Nevertheless, our Canadian and Alaskan retail operations will remain the key driver of our performance for many years to come.

We maintain a conservative distribution payout ratio of about 50% of operating cash flow to ensure we have adequate resources to reinvest in both our remote stores and emerging businesses. In our remote stores, we continue to invest in improvements to our in-store capabilities through expanded staff training programs, new technology, and the adoption of Best Practice work processes.

A key to our success is protecting and enhancing our food market share. We measure and track our food performance by sales per capita, unit volume growth, transaction size, private label penetration and net contribution by food category. We take an opportunistic approach to our general merchandise business. Using similar performance measures to food, we tailor our product mix to local market needs that we can profitably serve. Our broad assortment of general merchandise products gives our stores maximum flexibility to adjust their product mix to meet local market needs.

**The ability to continue the successful roll-out of the Giant Tiger format across western Canada.** In each of the past two fiscal years, we opened three new Giant Tiger stores for a current total of 10 stores. We plan to open four stores in 2005.

Key performance drivers will include our ability to meet or exceed sales and margin levels achieved by *Giant Tiger Stores Limited* in eastern Canada. Our success will depend on managing product sourcing, operating and transportation expenses while building strong, entrepreneurial store teams and a sufficient store base to absorb field staff and new store opening expenses.

**Our ability to achieve best selling practices and reinforce community relations in our remote stores.** We began developing store capability initiatives in 2001. By the end of 2004 we had invested in most of the store technology that we required and we have a solid understanding of the new work methods and processes we want to teach. In 2005 and beyond, management and staff development will accelerate, concentrating on upgrading manager skills and improving recruitment. Because of the harsh climate and the remoteness of our store locations, attracting and retaining top quality retail managers is a continuing priority and a key source of our competitive advantage. Related to this is our continued ability to develop local management and to foster positive community relationships especially within the Aboriginal markets we serve.

**Our ability to reduce costs in our core businesses, improve competitiveness and create more time to sell merchandise.** Our goal is to shift more staff time and skill to selling while reducing the overall cost of our core retail businesses. We aim to become more efficient in non-selling facets of store work. Cost savings will be targeted, particularly in labour scheduling, energy usage and product shrinkage. Over the past few years, we have also developed alliances with other merchandisers to provide sales and distribution services for certain products and services. For example, under our alliance with *Dufresne Furniture and Appliances* of Winnipeg, Dufresne manages product assortment, marketing and distribution for the furniture and appliance categories in Northern stores. This has given us access to expertise and buying power and has allowed us to reduce inventories. We plan to continue to mature these alliances and complement them with direct sourcing opportunities across North America and Asia.

*Our broad assortment of general merchandise products gives our stores maximum flexibility to adjust their product mix to meet local market needs.*



## CONSOLIDATED RESULTS

### 2004 Highlights

- Sales rose 0.8% to \$788.7 million, led by a food sales increase of 1.5%.
- Trading profit in Alaska increased 13.2% to US\$10.8 million (excluding the gain from insurance proceeds in 2003), the ninth consecutive year of improvement.
- Return on net assets improved to 14.8% from 14.1% reflecting improved utilization of our assets.
- Return on equity improved to 16.2%, a key indicator of our ability to effectively use capital.
- Total returns to investors were 39% after a 24% total return in 2003 and 33% in 2002.
- Three Giant Tiger stores were opened, bringing the total number to 10.
- Our debt-to-equity improved to 0.51:1 down from 0.92:1 five years ago, providing North West with flexibility to invest for profitable growth and deliver higher distributions to unitholders.

The key performance indicators used by management to assess results are summarized in the following table:

### Key Performance Indicators

| (\$ in thousands)                        | 2004             | 2003      | 2002      |
|------------------------------------------|------------------|-----------|-----------|
| Sales                                    | <b>\$788,693</b> | \$782,720 | \$749,759 |
| Same store sales % increase <sup>1</sup> | <b>1.4%</b>      | 2.1%      | 3.4%      |
| Trading profit <sup>2</sup>              | <b>\$ 76,606</b> | \$ 72,826 | \$ 72,271 |
| Net earnings                             | <b>\$ 37,265</b> | \$ 35,730 | \$ 34,469 |
| Net earnings per unit—basic              | <b>\$ 2.34</b>   | \$ 2.24   | \$ 2.15   |
| Net earnings per unit—diluted            | <b>\$ 2.32</b>   | \$ 2.22   | \$ 2.14   |
| Cash distributions in the year           | <b>\$ 1.80</b>   | \$ 1.90   | \$ 1.56   |
| Total assets                             | <b>\$413,637</b> | \$409,600 | \$418,191 |
| Return on net assets                     | <b>14.8%</b>     | 14.1%     | 13.4%     |
| Return on average equity                 | <b>16.2%</b>     | 16.0%     | 15.8%     |

1 2003 same store sales adjusted to an equivalent 52-week basis

2 See Non-GAAP measures section on page 17

*Food sales continued to perform well, with an annual 52-week increase of 3.4%.*

## CONSOLIDATED SALES

Sales for the 52 weeks ending January 29, 2005 increased 0.8% to \$788.7 million. When the previous year's sales are adjusted to an equivalent 52-week basis, the increase was 2.6%. Same store sales (excluding foreign exchange impact) on an equivalent 52-week basis increased 1.4%.

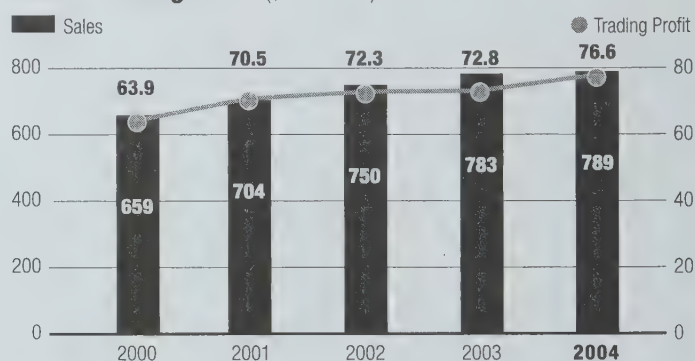
Food sales continued to perform well, with an annual 52-week increase of 3.4%. Quarterly same store increases were 4.7%, 3.3%, 2.0% and 4.1%. Canadian food sales increased 5.3% on an equivalent 52-week basis while Alaska's food sales increased 4.3%.

There was weakness in general merchandise sales with equivalent 52-week sales increasing only marginally over 2003. Same store sales decreased by 2.9% but strengthened quarter over quarter with decreases in the first three quarters of 7.4%, 5.9% and 1.2% and with a strong fourth quarter increase of 4.2%. General merchandise sales in the first half of the year were affected by a lack of exciting new merchandise, reduced clearance and promotional activity, and increased outshopping competition. The downward trend was reversed during the second half with the introduction of new programs, more current merchandise and better item selection in our northern Canada stores. The Company's merchandise clearance pricing was more limited as we focused on achieving controlled inventory levels and more profitable sales. In Alaska, a reduction of 16.9% in the Permanent Fund Dividend, paid out annually to state residents, reduced big-ticket general merchandise sales.

Canadian sales accounted for 79.9% of total sales (78.7% in 2003) while Alaska contributed 20.1% (21.3% in 2003). The Canadian dollar's appreciation versus the U.S. dollar in 2004 affected results as follows:

Sales .....decrease of \$10.9 million  
 Trading profit.....decrease of \$1.0 million  
 Net earnings.....decrease of \$372,000

### Sales & Trading Profit (\$ in millions)

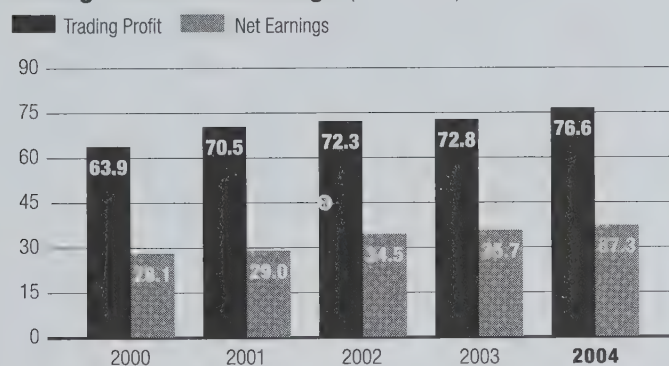


Both sales and trading profit were up in 2004.



**Profitability** Trading profit (EBITDA) increased 5.2% to \$76.6 million. Included in 2003 results was a gain of \$2.0 million from insurance proceeds. Excluding the 2003 gain, trading profit increased 8.1%.

#### Trading Profit & Net Earnings (\$ in millions)



**Net earnings benefited from savings related to our Best Practice training and our new in-store systems.**

Giant Tiger store growth increased sales by \$28.6 million but reduced consolidated trading profit margins due to this format's discount pricing model and the costs associated with reaching a critical mass of mature stores.

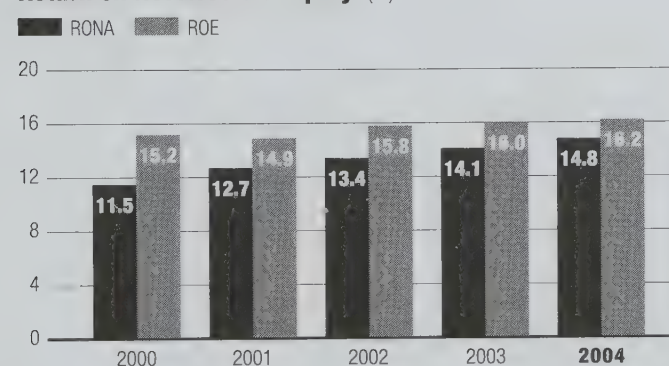
Amortization expense in the year increased by \$1.5 million to \$23.9 million.

Interest expense decreased 8.5% to \$5.8 million. The average cost of borrowing on interest bearing debt was 4.6% compared to 4.7% in 2003. The reduction in interest expense was due to a decline in borrowing resulting from lower average inventory and accounts receivable throughout most of the year. Our Alaskan subsidiary also paid down debt further reducing interest expense.

Consolidated net earnings increased 4.3% to \$37.3 million or \$2.32 per unit on a diluted basis. Excluding the impact of the 2003 net after tax insurance gain of \$1.2 million, consolidated net earnings increased 7.9%. Net earnings were reduced by \$372,000 or \$0.02 per unit due to the stronger Canadian dollar.

Return on net assets employed increased to 14.8% from 14.1% in 2003 while the return on equity improved to 16.2% from 16.0% in 2003. Return on net assets improved primarily due to lower average working capital throughout the year.

#### Return on Net Assets & Equity (%)



**Our return on net assets has benefited from lower average receivables and inventories.**

**Taxes Consolidated** NWF recorded a provision for income taxes in 2004 of \$9.7 million, compared to \$8.4 million in 2003, for an effective rate of 20.6% in 2004 and 19.0% in 2003. The increase in the effective tax rate is due to U.S. withholding tax of CDN\$815,000 on dividends paid by Alaska Commercial Company (AC) to NWC. Excluding the withholding tax payment, the effective income tax rate would have been 18.9%.

Income taxes paid in cash were \$7.5 million in 2004 compared to \$4.5 million in 2003. Future income taxes on the balance sheet were reduced to \$10.4 million from \$11.1 million a year ago after adjusting for the EIC 144 Accounting for Certain Consideration Received from a Vendor (see note 17 in the notes to the consolidated financial statements). Loss carry forwards of \$1.4 million were utilized in 2004.

The Canada Revenue Agency has been conducting an audit on the years 1996 to 1999. It is the opinion of management that the pending reassessments will not have a material effect on the Consolidated Financial Statements.

A more detailed explanation of the income tax provision and future tax assets is provided in note 10 to the consolidated financial statements.

**Fourth Quarter Highlights** Fourth quarter consolidated sales decreased 3.3% to \$209.9 million compared to \$217.0 million in 2003 in 13 weeks of operations versus 14 weeks in 2003. On an equivalent 13-week basis, sales increased 4.5% (up 4.1% on a same store basis). Fourth quarter earnings were \$10.6 million, the same as in 2003. Diluted earnings per unit were \$0.66 which is consistent with 2003. Withholding taxes on dividends paid by the Alaska Commercial Company to the Canadian company reduced earnings by CDN\$815,000 or \$0.05 per unit. Excluding the tax impact of the dividend, fourth quarter earnings would have been \$11.4 million or an increase of 7.2% over 2003.

Cash flow from operating activities for the quarter decreased to \$19.5 million from \$38.4 million. The decrease is due to higher receivables and an increase in inventory. New accounts receivable programs offered in the fourth quarter were well received by our customers resulting in an increase in the year-end balance. Inventories increased in part due to the timing of food inventory shipments as more merchandise was shipped to stores over winter roads than last year. Other factors were direct buying of fresh meat in Canada, increased direct importing of general merchandise and higher warehouse inventories to supply new Giant Tiger store openings.



# Canadian Operations

## 2004 CANADIAN OPERATIONS STRATEGY

| Strategy                                                                                                                                                                                                                | Results                                                                   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| <b>1. Develop Superior Store Selling Capability</b> <ul style="list-style-type: none"> <li>Install information systems in 117 stores</li> <li>Train 60 management level employees in Best Practice standards</li> </ul> | Installed in 117 stores<br>Trained 60 managers                            |
| <b>2. Continue Giant Tiger Store Expansion</b> <ul style="list-style-type: none"> <li>Open three Giant Tiger stores</li> </ul>                                                                                          | Opened in Winnipeg, Manitoba;<br>Moose Jaw and Saskatoon,<br>Saskatchewan |

**Financial Performance** Results of Canadian operations are summarized below by the key performance indicators used by management.

### Key Performance Indicators

| (\$ in thousands)                        | 2004             | 2003      | 2002      |
|------------------------------------------|------------------|-----------|-----------|
| Sales                                    | <b>\$629,823</b> | \$615,661 | \$565,747 |
| Same store sales % increase <sup>1</sup> | <b>0.9%</b>      | 2.6%      | 3.6%      |
| Trading profit <sup>2</sup>              | <b>\$ 62,629</b> | \$ 57,663 | \$ 59,163 |
| EBIT <sup>2</sup>                        | <b>\$ 42,652</b> | \$ 39,250 | \$ 40,187 |
| Return on net assets                     | <b>14.7%</b>     | 14.0%     | 14.2%     |

1 2003 same store sales adjusted to an equivalent 52-week basis

2 See Non-GAAP measures section on page 17

**Sales** Canadian sales increased 2.3% (0.9% on a same store basis) to \$629.8 million. On an equivalent 52-week basis, sales increased 4.2%. Canadian food sales accounted for 68.5% (67.8% in 2003) of total sales. Total Canadian food sales were strong throughout the year with quarterly increases of 8.3%, 5.0%, 3.5% and 5.6% on an equivalent 13-week basis in the fourth quarter. The balance was made up of general merchandise sales at 27.5% (27.9% in 2003), other sales, primarily fuel sales, at 2.5% (2.7% in 2003) and consumer credit revenue at 1.5% (1.6% in 2003).

Northern Canada food sales were flat compared to last year, but increased 1.9% on a same store basis and increased 2.0% on an equivalent 52-week basis compared to 2003.

Small sales increases were achieved across most food categories. Categories having the largest increases were deli, confections and food service. Categories which had decreases were grocery non-food, chilled foods and meats. Vendor supply problems in the meat category reduced sales as a number of frozen meat products were not available for part of the year. Unit sales in food were marginally down compared to last year, but cost inflation resulting from higher fuel-related transportation expenses contributed to overall higher sales dollars. Lower pricing in non-perishable food categories was implemented during the first quarter of 2005 to help accelerate unit sales growth.

Northern Canada general merchandise sales were down 4.1% compared to 2003 (-2.3% on a same store and equivalent 52-week basis). The year started poorly with general merchandise sales down 7.9% in the first quarter. Quarterly decreases were reduced in the second and third quarter to 7.5% and 1.7% and rebounded strongly in the fourth quarter with an increase of 5.9% on an equivalent 13-week period.

Deflationary pricing, weak merchandise programs, less clearance and promotional activity, increased discount store competition and less discretionary income were all factors affecting first half general merchandise performance. A focus on lower-cost product sourcing, better balanced inventory levels and fewer deep discount promotions combined to increase general merchandise profitability in the second half of the year. This increase was achieved despite substantial upward pressure on freight costs.

Canadian sales per selling square foot were \$969 for food (\$829 in 2003) and \$267 for general merchandise (\$285 in 2003) reflecting continued strong food sales growth.

**Sales Blend** The chart below reflects the growing importance of food sales to the overall sales of the Canadian operations.

|                     | 2004         | 2003  | 2002  |
|---------------------|--------------|-------|-------|
| Food                | <b>68.5%</b> | 67.8% | 66.0% |
| General merchandise | <b>27.5%</b> | 27.9% | 29.6% |
| Other               | <b>2.5%</b>  | 2.7%  | 2.8%  |
| Service charges     | <b>1.5%</b>  | 1.6%  | 1.6%  |

Same store food sales in the Company's core remote stores have generally performed at industry-leading levels while general merchandise sales have lagged.

### Core Stores—Same Store Sales

| (% change)          | 2004         | 2003  | 2002 |
|---------------------|--------------|-------|------|
| Food                | <b>1.9%</b>  | 5.0%  | 3.8% |
| General merchandise | <b>-2.3%</b> | -4.4% | 2.6% |
| Total sales         | <b>0.7%</b>  | 2.1%  | 3.4% |

Giant Tiger store sales increased 60.5% to \$75.8 million as we added three new stores in 2004. Same store sales increased by 3.5%. Food (including tobacco) accounted for 65.2% of total sales while general merchandise accounted for 34.8%.

Sales of the Diversified Business group decreased 6.4% (-5.4% on an equivalent 52-week basis) to \$17.9 million. This group consists of three Fur Marketing branches, our Inuit Art Marketing Service and fresh food wholesaler Crescent Multi Foods.



**Profitability** Gross profit dollars for Canadian stores increased by 3.1% (4.9% on an equivalent 52-week basis). Gross profit rate increased to 32.7% compared to 32.4% in 2003. More aggressive pricing in our non-perishable food categories and higher freight costs lowered food gross profit, but was more than offset by higher general merchandise rates due to better inventory control, lower buying costs and lower markdowns. Profitability was negatively impacted by higher occupancy expenses related to increasing energy costs, Giant Tiger store opening costs and associated costs to build the field infrastructure and train managers for the continued roll-out of Giant Tiger stores.

Trading profit from Canadian operations increased by \$5.0 million to \$62.6 million or 9.9% of sales.

**Operational Net Assets Employed** Operational net assets employed at January 29, 2005, increased 2.2% to \$283.0 million compared to \$277.0 million at the previous year end as summarized in the following table:

#### Operational Net Assets Employed

| (\$ millions at the end of the fiscal year) | 2004           | 2003           | 2002           |
|---------------------------------------------|----------------|----------------|----------------|
| Property and equipment                      | \$147.3        | \$151.3        | \$142.1        |
| Inventory                                   | 102.3          | 93.3           | 102.0          |
| Accounts receivable                         | 61.6           | 51.3           | 56.8           |
| Other assets                                | 16.1           | 22.1           | 14.4           |
| Liabilities                                 | (44.3)         | (41.0)         | (43.2)         |
| <b>Total</b>                                | <b>\$283.0</b> | <b>\$277.0</b> | <b>\$272.1</b> |

Property and equipment balances were lower reflecting reduced capital expenditures during the year. Major expenditures included the installation of a new in-store information system and the capital costs associated with opening three Giant Tiger stores. Net capital expenditures in 2005 are expected to be \$23.5 million, up \$6.7 million from 2004. The incremental capital will provide for two large store replacements in northern Canada, several major upgrades to existing stores, enhanced in-store merchandising programs, expanded gas outlets, upgraded communication systems and the opening of five Giant Tiger stores.

For the first nine months of 2004, inventory levels were lower than the previous year by an average of \$3.5 million. In the last quarter, inventories increased due to higher food sealift and winter road shipments, increased stock to support our spring catalogue launch and in-store seasonal programs, earlier buying of import general merchandise and fresh meat product due to a change to direct procurement and higher food warehouse inventory levels to support in-stock rates within our Giant Tiger stores.

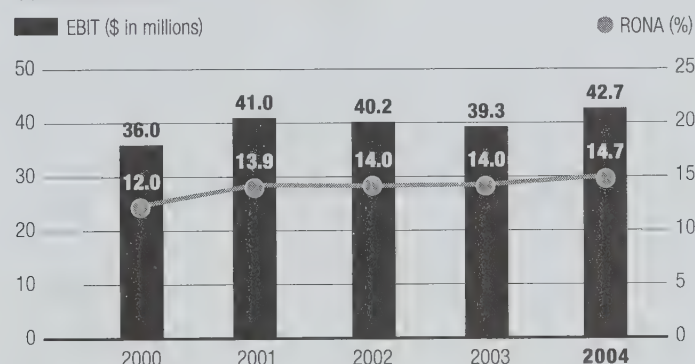
Accounts receivable throughout the first nine months also averaged lower than last year. In the third quarter, the allowance for doubtful accounts was reduced by \$2.0 million resulting from the ability of the Company's new central credit management system to better monitor accounts and initiate more proactive collection. New credit programs introduced in the fourth quarter resulted in an increase in the portfolio of over \$2.0 million.

Other assets decreased reflecting lower deposits in transit compared to 2003 and lower cash on hand at the store level. A concerted effort at the store level to improve the timeliness of deposit deliveries to the bank contributed the decrease. The increase in liabilities over the prior year is due to an increase in accounts payable related to the timing of inventory purchases.

**Return on Net Assets** The return on net assets employed for Canadian operations was 14.7%, up from 14.0% in 2003.

There is potential for more working capital productivity gains in Northern Canada stores. Giant Tiger stores will continue to deliver high inventory turns. Profit margin rates will erode due to the growing impact of Giant Tiger's discount pricing, offset by higher sales volumes.

#### Canadian Return on Net Assets



We continue to improve asset utilization.

*Trading profit from Canadian operations increased by \$5.0 million to \$62.6 million or 9.9% of sales.*



# Alaskan Operations (Stated in U.S. dollars)

## 2004 ALASKAN OPERATIONS STRATEGY

| Strategy                                           | Results                                                                        |
|----------------------------------------------------|--------------------------------------------------------------------------------|
| <b>1. Acquire and Develop New Store Locations</b>  | No new locations developed                                                     |
| <b>2. Increase Sales in the Wholesale Division</b> | Wholesale Division sales were flat to last year on an equivalent 52-week basis |
| <b>3. Improve Cost Efficiencies</b>                | Cost efficiencies generated were offset by higher occupancy costs              |
| <b>4. Enhance Store Capabilities</b>               | Installed information systems in 20 stores                                     |

**Financial Performance** Alaskan results for the year are summarized below by the key performance indicators used by management.

### Key Performance Indicators

| (\$ in thousands)                        | 2004             | 2003               | 2002      |
|------------------------------------------|------------------|--------------------|-----------|
| Sales                                    | <b>\$122,813</b> | \$120,856          | \$117,542 |
| Same store sales % increase <sup>1</sup> | <b>3.7%</b>      | -0.4%              | 2.6%      |
| Trading profit <sup>2</sup>              | <b>\$ 10,805</b> | \$ 10,969          | \$ 8,373  |
| EBIT <sup>2</sup>                        | <b>\$ 7,768</b>  | \$ 8,084           | \$ 6,012  |
| Return on net assets                     | <b>15.5%</b>     | 16.1% <sup>3</sup> | 11.6%     |

1 2003 same store sales adjusted to an equivalent 52-week basis

2 See Non-GAAP measures section on page 17

3 Return on net assets would be 13.1% if gain from insurance proceeds of \$1.4 million is excluded

**Sales** AC's total sales increased 1.6% (3.3% using an equivalent 52-week basis for 2003) to \$122.8 million. The rural Alaskan market had a stronger fishing season in 2004 which helped results in the first three quarters. Offsetting this was a 16.9% reduction in the Alaska Permanent Fund dividends. AC improved its market share in a number of markets as competitors weakened.

Food sales, which accounted for 80.1% of total revenue (79.5% in 2003), increased 2.4% (4.3% using an equivalent 52-week basis for 2003). On a same store basis, food sales increased 5.7%. AC's retail stores food sales were led by strong increases in grocery 5.4%, snack foods 3.7%, beverages 6.0%, meats 5.3% and deli 6.1%. All other food categories had increases except food service and produce. Less competitive pricing pressure in some markets and market share gains accounted for the sales increase.

General merchandise sales, which accounted for 18.9% of total sales (19.6% in 2003), decreased 1.9% (-0.8% on an equivalent 52-week basis). On a same store basis, general merchandise sales declined 3.5%. General merchandise sales continued to be weak as disposable income was severely affected by the reduction of Alaska Permanent Fund dividends. Sales declined in most general merchandise categories with home furnishings accounting for the largest decrease.

Other sales, primarily gasoline, increased 20.3%. Service charge income increased 5.5%.

Sales per selling square foot were \$684 for food (\$676 in 2003) and \$209 for general merchandise (\$211 in 2003) continuing the strong food sales performance. Food selling square footage accounted for 57% of total selling space compared to 56% in 2003. The percentage change for same store sales for the past three years are shown in the following table:

### Same Store Sales

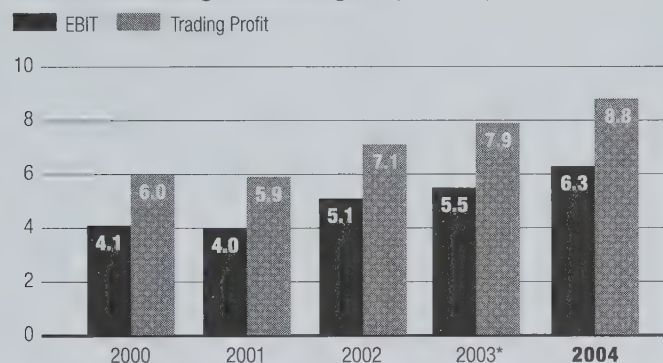
| (% change)          | 2004         | 2003   | 2002  |
|---------------------|--------------|--------|-------|
| Food                | <b>5.7%</b>  | 3.0%   | 3.9%  |
| General merchandise | <b>-3.5%</b> | -10.9% | -1.4% |
| Total sales         | <b>3.7%</b>  | -0.4%  | 2.6%  |

Frontier Expeditors' (FE) sales were flat to last year as food sales declined 3.8% on an equivalent 52-week basis. The food sales decrease was totally offset by an increase in general merchandise sales as FE became the state distributor of an electronic products line. Tighter credit policies and customer closings negatively impacted food sales. Gross profit rates were greater than in 2003, but increased occupancy and operating costs reduced the trading profit contribution.

**Profitability** Gross profit rates improved to 34.0% from 33.5% in 2003. Food rates improved in 2004 while general merchandise rates declined. With the higher food sales and improved margin rate, total gross profit dollars increased 3.1%. Operating expenses were flat to last year, but higher when compared to 2003 on an equivalent 52-week basis, primarily due to higher occupancy costs.



### AC EBIT & Trading Profit Margins (% of sales)



\*Excludes gains from insurance proceeds

**Alaskan operations continue to improve due to increase in market share.**

Trading profit decreased 1.5% to \$10.8 million. Excluding the gain from insurance proceeds of \$1.4 million in 2003, the increase in trading profit was 13.2%.

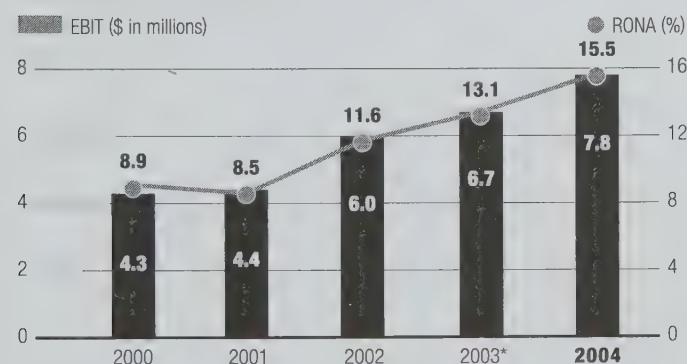
### Operational Net Assets Employed

| (\$ in millions at the end of the fiscal year) | 2004          | 2003          | 2002          |
|------------------------------------------------|---------------|---------------|---------------|
| Property and equipment                         | \$31.3        | \$30.8        | \$30.3        |
| Inventory                                      | 15.9          | 16.1          | 16.7          |
| Accounts receivable                            | 6.0           | 6.1           | 5.2           |
| Other assets                                   | 3.2           | 3.3           | 2.7           |
| Liabilities                                    | (6.3)         | (6.4)         | (6.8)         |
| <b>Total</b>                                   | <b>\$50.1</b> | <b>\$49.9</b> | <b>\$48.1</b> |

At January 29, 2005, AC's operational net assets employed were up marginally from the previous year. Property and equipment increased due to the major renovation of the Kotzebue store and the continued roll-out of store information systems. Amortization costs increased 5.3% to \$3.0 million in 2004.

Inventories decreased marginally from last year as did accounts receivable. Net other assets and liabilities remained the same as 2003 at \$3.1 million.

### AC Return on Net Assets



\*Excludes gain from insurance proceeds

**Improving asset utilization provides better returns.**

*With the higher food sales and improved margin rate, total gross profit dollars increased 3.1%*



## FINANCIAL CONDITION

### Consolidated Net Assets Employed

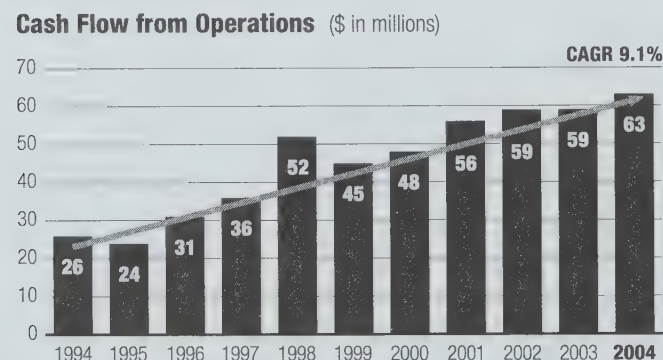
| (\$ in millions at the end of the fiscal year) | 2004           | 2003    | 2002    |
|------------------------------------------------|----------------|---------|---------|
| Property and equipment                         | <b>\$186.1</b> | \$192.4 | \$188.2 |
| Inventory                                      | <b>122.0</b>   | 114.8   | 127.4   |
| Accounts receivable                            | <b>69.0</b>    | 59.4    | 64.8    |
| Other assets                                   | <b>33.3</b>    | 41.0    | 35.6    |
| Liabilities                                    | <b>(53.2)</b>  | (51.2)  | (59.8)  |
| Total                                          | <b>\$357.2</b> | \$356.4 | \$356.2 |

**Balance Sheet and Cash Flows** Property and equipment balances declined by \$6.3 million in 2004. Additional information on capital expenditures is included in the next section.

Inventories increased \$7.2 million or 6.3% to \$122.0 million. Accounts receivable increased \$9.6 million or 16.2% to \$69.0 million. Proceeds of \$2.0 million to be received from insurance policy deposits are included in the receivable balance as existing property and casualty insurance policies were replaced. Deposits to the insurance companies to cover a shared risk program are no longer required under the new policies. Please refer to the Canadian Operations and Alaskan Operations sections for additional information on inventories and accounts receivable.

Liabilities net of other assets increased by \$9.7 million due to a decrease in cash and an increase in trade accounts payable and accrued expenses.

Cash flow from operations improved by \$3.9 million to \$62.8 million reflecting improved net earnings and higher amortization amounts from 2003. The compound annual growth rate (CAGR) for cash flow from operations over the past 10 years is 9.1% as shown in the following chart:



**The positive trend in cash flow from operations has permitted growing distributions to unitholders.**

### Capital Expenditures on Property and Equipment

Total net capital expenditures (capital expenditures net of proceeds from disposals) in 2004 were \$21.6 million compared to \$30.2 million in 2003. Net capital spending on Canadian operations totalled \$16.8 million (\$27.2 million in 2003), and \$4.8 million in Alaska (\$3.0 million in 2003).

Capital expenditures in Canadian operations were \$17.5 million in 2004 versus \$28.3 million in 2003. Investments totalling \$3.9 million (\$6.8 million in 2003) were made to renovate existing stores, replace equipment, improve support facilities and replace one major store. Expenditures on information systems of \$5.9 million (\$12.7 million in 2003) were primarily directed at the development and upgrading of our in-store and corporate information systems, corporate software upgrades and corporate hardware.

A new store was opened in Sapotaweyak, Manitoba. Replacement stores were opened in Repulse Bay, Nunavut, and Wunnumin Lake, Ontario. Three new Giant Tiger stores were opened during the year in Saskatoon and Moose Jaw, Saskatchewan, as well as a third location in Winnipeg, Manitoba. Two NorthMart stores were closed in 2004, in Labrador City, Newfoundland and Labrador, and The Pas, Manitoba. The Burger King, which was part of the NorthMart store in The Pas, remains open. The Pas store will reopen as a Giant Tiger Store in the spring of 2005. Total selling square feet in Canada decreased to 1,093,121 from 1,105,748 in 2003.

Capital expenditures in Alaska were \$4.8 million compared to \$4.9 million in 2003. Alaskan selling square feet increased to 254,512 from 253,981 in 2003.

The following table summarizes the number of stores and selling square footage under NWC's retail formats:

|                   | Number of Stores |      | Selling square footage |           |
|-------------------|------------------|------|------------------------|-----------|
|                   | 2004             | 2003 | 2004                   | 2003      |
| Northern          | <b>133</b>       | 133  | <b>772,301</b>         | 785,213   |
| NorthMart         | <b>5</b>         | 7    | <b>125,565</b>         | 186,833   |
| Quickstop         | <b>7</b>         | 6    | <b>11,272</b>          | 10,229    |
| Giant Tiger       | <b>10</b>        | 7    | <b>163,937</b>         | 103,427   |
| Other formats     | <b>4</b>         | 4    | <b>22,558</b>          | 22,558    |
| AC Value Centers  | <b>24</b>        | 24   | <b>252,000</b>         | 251,469   |
| Total at year end | <b>183</b>       | 181  | <b>1,347,633</b>       | 1,359,729 |

Net capital expenditures are expected to be \$27.2 million in 2005 and will be funded entirely from cash from operations.



**Financing Activities** The Company has credit facilities with two Canadian chartered banks totalling up to \$85.0 million at favourable rates. At year end, we had drawn \$29.2 million on the credit facilities. AC has an operating loan facility of US\$4.0 million available and was drawing US\$2.3 million at January 29, 2005.

We continue to finance all of our capital expenditures and distributions with cash from operations. We expect that cash from operations and funds available from credit facilities are more than sufficient to meet all our obligations in 2005.

In August 2002, the Company successfully completed the refinancing of its long-term bonds by issuing US\$65.0 million 5.89% senior notes. Repayments of 20% of the original amount of the senior notes are required on June 15, 2007 and June 15, 2008 with the balance due June 15, 2009.

A swap was completed on September 11, 2002 to convert US\$14.0 million of the US\$65.0 million obligation from fixed to floating rates at three-month London Interbank Offered Rate (LIBOR) plus 1.87%.

The Company designated US\$45.0 million of its new U.S. dollar senior notes as a hedge against its U.S. dollar investment in AC. On November 7, 2002, US\$20.0 million fixed obligation was converted by a cross currency swap to a Canadian dollar-floating obligation at the Canadian Banker's Acceptance three-months rate plus 2.99%. On January 24, 2003, an additional US\$2.0 million of the fixed obligation was converted by a cross currency swap to a Canadian dollar-floating obligation at the Canadian Banker's Acceptance three-months rate plus 3.16%. This swap reduced the hedge to US\$43.0 million to recognize the earnings at AC in 2002 and the reduction of the investment due to repayments on inter-company notes.

This leaves US\$29.0 million of the original senior notes fixed at an interest rate of 5.89% and the remainder of the indebtedness subject to floating rates plus negotiated spreads. The Fund paid four distributions in 2004 totalling \$29.1 million compared to five distributions in 2003 totalling \$30.6 million.

### Contractual Obligations and Other Commitment

Contractual obligations of the Company are listed in the chart below:

| (\$ in thousands)           | Total            | 0-1 Year        | 2-3 Years       | 4-5 Years       | 5 Years +       |
|-----------------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| Long-term debt              | \$ 87,484        | \$ —            | \$ 16,147       | \$71,337        | \$ —            |
| Capital leases              | 1,425            | 106             | 247             | 304             | 768             |
| Operating leases            | 99,355           | 11,169          | 20,220          | 16,151          | 51,815          |
| Other long-term obligations | 1,710            | —               | 1,710           | —               | —               |
| <b>Total</b>                | <b>\$189,974</b> | <b>\$11,275</b> | <b>\$38,324</b> | <b>\$87,792</b> | <b>\$52,583</b> |

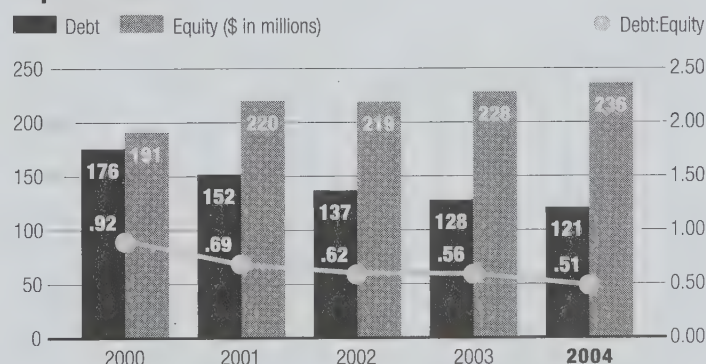
**Director and Indemnification Agreements** The Company has agreements with its current and former directors and officers to indemnify them against charges, costs, expenses, amounts paid in settlement and damages incurred from any lawsuit or any judicial, administrative or investigative proceeding in which they are sued as a result of their service. Due to the nature of these agreements, the Company cannot make a reasonable estimate of the maximum amount it could be required to pay to counterparties. The Company has also purchased director and officer liability insurance. No amount has been recorded in the financial statements regarding these indemnification agreements.

**Other Indemnification Agreements** The Company provides indemnification agreements to counterparties for events such as intellectual property right infringement, loss or damages to property, claims that may arise while providing services, violation of laws or regulations, or as a result of litigation that might be suffered by the counterparties. The terms and nature of these agreements vary based on the specific contract. The Company cannot make a reasonable estimate of the maximum amount it could be required to pay to counterparties. No amount has been recorded in the financial statements regarding these agreements.

### Capital Structure

On a consolidated basis, North West Company Fund (NWF) had \$120.9 million in debt and \$236.3 million in equity at the end of the year as the debt-to-equity ratio improved to 0.51:1 versus 0.56:1 a year earlier. There was no new equity issued in 2004.

### Capital Structure



The strengthening of the Fund's capital structure is reflected in the above chart. Over the past five years, NWF's debt-to-equity ratio has improved to 0.51:1 from 0.92:1 while annual cash distributions to unitholders have increased to \$1.80 per unit in 2004 from \$1.44 per unit in 2000. Equity has increased by 23.7% to \$236.3 million over the past five years while interest-bearing debt was reduced by 31.2% to \$120.9 million from \$175.8 million in 2000.



In the past two years, the Company issued loans to officers under the unit purchase loan plan, which has the effect of decreasing equity. These loans are non-interest bearing and repayable from the after tax distributions or if the officer sells the units or leaves the Company. The loans are secured by a pledge of 225,998 units of the Company with a quoted value at January 29, 2005 of \$7.0 million. Loans receivable at January 29, 2005 of \$4.4 million (\$3.7 million at January 31, 2004) are recorded as a reduction of equity. The maximum value of the loans under the plan cannot exceed \$7.5 million.

Consolidated debt at January 29, 2005 decreased 5.4% or \$7.0 million to \$120.9 million. The reduction is partly due to a stronger Canadian dollar. The debt outstanding at the end of the fiscal year is summarized as follows:

#### Debt

| (\$ in thousands at the end of the fiscal year) | 2004      | 2003      | 2002      |
|-------------------------------------------------|-----------|-----------|-----------|
| Senior notes                                    | \$ 87,484 | \$ 91,432 | \$ 99,597 |
| Bank debt                                       | 32,023    | 30,313    | 28,157    |
| Mortgages and notes payable                     | —         | 4,523     | 7,088     |
| Capital leases                                  | 1,425     | 1,634     | 1,970     |
| Total                                           | \$120,932 | \$127,902 | \$136,812 |

Book value per unit, on a diluted basis, at the end of the year increased 3.4% or \$0.48 to \$14.65. Book equity was favourably affected by retained earnings of \$8.9 million (\$9.5 million in 2003) after distributions of \$28.4 million (\$25.1 million in 2003).

The coverage ratio of EBIT to interest improved to 9.1 times versus 8.0 times in 2003. Interest costs were reduced due to lower average debt levels in 2004 as a result of paying down long-term debt in Alaska.

#### Interest Costs and Coverage

|                           | 2004 | 2003 | 2002 |
|---------------------------|------|------|------|
| Coverage ratio            | 9.1  | 8.0  | 7.4  |
| EBIT (\$ in millions)     | 52.7 | 50.4 | 49.6 |
| Interest (\$ in millions) | 5.8  | 6.3  | 6.7  |

*We have a leading market position in the vast majority of communities that we serve.*

## RISK MANAGEMENT

NWC is exposed to a number of risks in its business. These risks relate to our industry, the market environment and the successful execution of our key strategies.

**Store Selling Capability Initiative** This involves programs to improve training and change the work in our stores so we can be better at selling. The expected benefits are more time spent on selling rather than administration, more rewarding and balanced work at the store level and profitable sales growth. We are using Best Practice stores, new manager recruiting and training and new in-store systems technology to achieve our goal. The payback from this initiative will depend on our recruiting success and our ability to efficiently train our employees to use effective new practices within a reasonable time period.

**Competition** We have a leading market position in the vast majority of communities that we serve. Sustaining and growing this position depends on our ability to be more consistently in stock on a broader range of everyday products and services compared to our local competitors. To this end, we actively monitor competitive activity and take steps to protect and grow our market share in individual communities and regions. Outshopping competition from regional centres is significant and continues to grow. Competition in these markets is continuously assessed to ensure that our pricing, selection and service levels attract profitable local spending through our stores and catalogue.

**Community Relations** About 37% of our sales are derived from communities and regions that restrict commercial land ownership and usage by non-Aboriginal owned businesses or which have enacted policies and regulations to support Aboriginal-owned businesses. We successfully operate within these environments through initiatives that promote positive community and customer relations. These include joint venture and store lease arrangements with community-based development organizations, initiatives to recruit local residents into management positions, increased Aboriginal participation on our Board of Directors and direct investment in the North West Company Fund by Aboriginal-owned entities.

**Consumer Income** Our largest customer group derives most of its income directly or indirectly from government transfer payments, in the form of social assistance, child benefits and old age security. These are stable sources of income, independent of economic cycles. A major source of employment income is generated from local government and spending on infrastructure projects. This includes new housing, schools, health care facilities, roads and sewers. Local government employment levels can fluctuate within a year depending on a community's fiscal health.



The infrastructure and social support needs of the North are immense and we expect to see some spending increases. The recent federal budget provided for \$1.4 billion over five years to help improve the health of Aboriginal Canadians as well as improve housing conditions and the quality of water and wastewater treatment on reserves. Additional income will be generated from the National Child Benefit Supplement for low-income families which increased by \$150 annually per child in July 2004, with another \$185 scheduled in each of July 2005 and July 2006. All or part of the supplement may be offset by reductions in social assistance payments by the provinces or territories.

**Interest Rate and Currency Fluctuations** NWC is exposed to fluctuations in interest rates and currency exchange rates under its borrowings. Through the use of certain financial instruments, US\$36.0 million of NWC's senior notes were effectively converted from fixed interest rate debt to floating interest rate debt and US\$43.0 million of NWC's senior notes were maintained in U.S. dollar obligations to hedge the Company's investment in AC. Fluctuations in the foreign exchange rates due to the stronger Canadian dollar reduced AC's earnings by \$0.4 million when converted to Canadian funds.

**Energy Costs** The Company is exposed to fluctuations in the price of energy, particularly oil. To the extent that escalating fuel costs cannot be offset by energy conservation practices or offsetting productivity gains, they may result in lower margins or higher retail prices. Consumer spending, especially on discretionary items, may also be adversely affected.

*We believe that revenue and earnings growth will continue at modest rates in 2005.*

## OUTLOOK

We believe that revenue and earnings growth will continue at modest rates in 2005. Emphasis is being placed on training and systems investments in our remote stores built around the principle of more local management responsibility for driving sales. The remote store general merchandise focus will be on profitability and opportunistic pockets of sales growth. Giant Tiger store expansion will continue with the planned opening of four stores in 2005. Alaskan operations are expected to show above average food growth, but a slight decline in general merchandise sales as we anticipate another payment decrease from the Alaska Permanent Fund.

**Quarterly Financial Information** The following is a summary of selected quarterly financial information. Each quarter represents a 13-week period, except the fourth quarter of 2003, which represents a 14-week period.

### Operating Results—Consolidated

| (\$ thousands)                   | Q1        | Q2        | Q3        | Q4        | Total     |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Sales</b>                     |           |           |           |           |           |
| 2004                             | \$184,364 | \$197,483 | \$196,989 | \$209,857 | \$788,693 |
| 2003                             | \$179,396 | \$192,376 | \$193,998 | \$216,950 | \$782,720 |
| <b>Trading profit</b>            |           |           |           |           |           |
| 2004                             | \$ 14,634 | \$ 19,293 | \$ 21,165 | \$ 21,514 | \$ 76,606 |
| 2003                             | \$ 13,234 | \$ 17,984 | \$ 20,586 | \$ 21,022 | \$ 72,826 |
| <b>Net earnings</b>              |           |           |           |           |           |
| 2004                             | \$ 6,388  | \$ 9,320  | \$ 10,993 | \$ 10,564 | \$ 37,265 |
| 2003                             | \$ 5,543  | \$ 8,925  | \$ 10,648 | \$ 10,614 | \$ 35,730 |
| <b>Earnings per unit—basic</b>   |           |           |           |           |           |
| 2004                             | \$ 0.40   | \$ 0.59   | \$ 0.69   | \$ 0.66   | \$ 2.34   |
| 2003                             | \$ 0.35   | \$ 0.56   | \$ 0.67   | \$ 0.66   | \$ 2.24   |
| <b>Earnings per unit—diluted</b> |           |           |           |           |           |
| 2004                             | \$ 0.40   | \$ 0.58   | \$ 0.68   | \$ 0.66   | \$ 2.32   |
| 2003                             | \$ 0.35   | \$ 0.55   | \$ 0.66   | \$ 0.66   | \$ 2.22   |

Historically, the Company's first quarter sales are the lowest and fourth quarter sales are the highest, reflecting the Christmas selling period. Weather conditions are often extreme and can affect sales in any quarter. Net earnings are historically lower in the first quarter due to lower sales. Net earnings generally follow higher sales but can be dependent on markdown activity in key sales periods to meet competitive pressures to reduce excess inventories.



## ACCOUNTING STANDARDS IMPLEMENTED IN 2004

In 2004 the Company implemented the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

**Hedging Relationships** The Company adopted Accounting Guideline 13 "Hedging Relationships" (AcG 13), effective February 1, 2004. In accordance with the new guideline, the Company's hedging relationships are documented and subject to effectiveness tests on a quarterly basis for reasonable assurance that they are and will continue to be effective. Any derivative that does not qualify for hedge accounting is reported in earnings on a mark to market basis. The adoption of AcG 13 had no impact on the Company's financial statements.

**Asset Retirement Obligations** In the first quarter of 2004, the Company retroactively implemented CICA Section 3110 "Asset Retirement Obligations" (CICA 3110). Section 3110 establishes the standards for the recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal obligation is incurred at its estimated fair value and a corresponding asset is capitalized as part of the related asset and that asset is depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Accordingly, the Company has recognized a discounted liability associated with the operation of petroleum dispensing units and specific provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. This standard was implemented retroactively with restatement of the prior year's consolidated financial statements. The cumulative effect of implementation was a decrease to opening retained earnings for 2003 of \$287,000 (net of future income taxes recoverable of \$165,000), an increase in property and equipment of \$586,000, an increase in other liabilities of \$1,033,000 and an increase in the cumulative translation adjustment of \$5,000. The impact on net earnings for each of 2003 and 2004 was not material.

### **Accounting for Certain Consideration Received from Vendors**

In the third quarter of 2004, the Company retroactively implemented Emerging Issues Committee Abstract 144 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (EIC 144). EIC 144 requires a customer to record cash consideration received from a vendor as a reduction in the price of the vendor's products, and reflect it as a reduction of cost of goods sold and related inventory, when recognized in the income statement and balance sheet.

The Company receives allowances from certain of its merchandise vendors which it records as a reduction of cost of goods sold. EIC 144 has changed the timing of recognition of some vendor allowances. This standard was implemented retroactively with restatement of the prior year's consolidated financial statements. Accordingly, the Company recorded a decrease to opening retained earnings for 2003 of \$857,000 (net of current future income taxes recoverable of \$487,000), a decrease to inventory of \$1,324,000 and an increase of \$20,000 to the cumulative translation adjustment. The impact on earnings for each of 2003 and 2004 was not material.

**Variable Interest Entities** During the fourth quarter, the Company adopted in advance Accounting Guideline 15 "Consolidation of Variable Interest Entities" (AcG 15). This guideline requires the consolidation of variable interest entities (VIE) for annual or interim periods beginning on or after November 1, 2004. A VIE is any legal structure used to conduct activities or hold assets which are not controlled by voting interests, but rather by contractual or other interests that change with that entity's underlying net asset value. The Company has assessed the impact of the accounting guideline and determined that the Company is not the primary beneficiary of any variable interest entities and accordingly, the implementation of AcG 15 has not had any impact on the consolidated financial statements.



## NON-GAAP MEASURES

**1 Trading Profit (EBITDA)** is not a recognized measure under Canadian GAAP. Management believes that in addition to net earnings (loss), trading profit is a useful supplemental measure as it provides investors with an indication of the Company's ability to generate cash flows to fund its cash requirements, including distributions and capital investment. Investors should be cautioned, however, that trading profit should not be construed as an alternative to net earnings (loss) determined in accordance with GAAP as an indicator of NWF's performance. NWF's method of calculating trading profit may differ from other companies and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to trading profit or EBITDA is provided below:

### Reconciliation of Net Earnings to Trading Profit

| (\$ in thousands) | 2004            | 2003     |
|-------------------|-----------------|----------|
| Net earnings      | <b>\$37,265</b> | \$35,730 |
| Add: Amortization | <b>23,905</b>   | 22,401   |
| Interest expense  | <b>5,761</b>    | 6,299    |
| Income taxes      | <b>9,675</b>    | 8,396    |
| Trading profit    | <b>\$76,606</b> | \$72,826 |

For trading profit information by business segment, see note 12 Segmented Information in the notes to the consolidated financial statements on page 25

**2 Earnings Before Interest and Income Taxes (EBIT)** is not a recognized measure under Canadian GAAP. Management believes that EBIT is a useful measure as it provides investors with an indication of the performance of the consolidated operation and/or business segments, prior to interest expense and income taxes. Investors should be cautioned, however, that EBIT should not be construed as an alternative to net earnings (loss), determined in accordance with GAAP, as an indicator of NWF's performance. NWF's method of calculating EBIT may differ and may not be comparable to measures used by other companies. A reconciliation of consolidated net earnings to EBIT is provided below:

### Reconciliation of Net Earnings to EBIT

| (\$ in thousands)                                | 2004            | 2003     |
|--------------------------------------------------|-----------------|----------|
| Net earnings                                     | <b>\$37,265</b> | \$35,730 |
| Add: Interest expense                            | <b>5,761</b>    | 6,299    |
| Income taxes                                     | <b>9,675</b>    | 8,396    |
| Earnings before interest and income taxes (EBIT) | <b>\$52,701</b> | \$50,425 |

For EBIT information by business segment, see note 12 Segmented Information in the notes to the consolidated financial statements on page 25

## Management's Responsibility for Financial Statements

The management of North West Company Fund and The North West Company Inc. are responsible for the preparation, presentation and integrity of the accompanying financial statements and all other information in this annual report. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada and include certain amounts that are based on the best estimates and judgment by management.

In order to meet its responsibility and ensure integrity of financial reporting, management has established a code of business ethics, and maintains appropriate internal controls and accounting systems. An internal audit function is maintained that is designed to provide reasonable assurance that assets are safeguarded, transactions are authorized and recorded and that the financial records are reliable.

Ultimate responsibility for financial reporting to unitholders rests with the Trustees of the Fund and the Board of Directors of the Company. The Audit Committee of the Board, consisting of outside Directors, meets periodically with management, Trustees and with the internal and external auditors to review the audit results, internal controls and accounting policies. Internal and external auditors have unlimited access to the Audit Committee. The Audit Committee meets separately with management and the external auditors to review the financial statements and other contents of the annual report and recommend approval by both the Trustees and the Board of Directors. The Audit Committee also recommends the independent auditor for appointment by the unitholders.

PricewaterhouseCoopers LLP, an independent firm of auditors appointed by the unitholders, have completed their audit and submitted their report as follows.



Edward S. Kennedy

PRESIDENT & CEO, THE NORTH WEST COMPANY INC.



Léo P. Charrière

EXECUTIVE VICE-PRESIDENT, CFO & SECRETARY, NORTH WEST COMPANY FUND

MARCH 16, 2005

## Auditor's Report

PRICEWATERHOUSECOOPERS 

To the Unitholders of North West Company Fund:

We have audited the consolidated balance sheets of North West Company Fund as at January 29, 2005 and as at January 31, 2004 and the consolidated statements of earnings and retained earnings and cash flows for the fiscal years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at January 29, 2005 and January 31, 2004 and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

WINNIPEG, CANADA

MARCH 16, 2005



# Consolidated Balance Sheets

January 29, 2005

January 31, 2004

(\$ in thousands)

(Restated Note 17)

## ASSETS

### Current assets

|                               |           |           |
|-------------------------------|-----------|-----------|
| Cash                          | \$ 11,438 | \$ 16,627 |
| Accounts receivable           | 69,040    | 59,414    |
| Inventories                   | 122,034   | 114,790   |
| Prepaid expenses              | 2,663     | 3,083     |
| Future income taxes (Note 10) | 2,467     | 2,916     |

207,642 196,830

|                                 |         |         |
|---------------------------------|---------|---------|
| Property and equipment (Note 3) | 186,104 | 192,395 |
| Other assets (Note 4)           | 11,959  | 12,153  |
| Future income taxes (Note 10)   | 7,932   | 8,222   |

\$413,637 \$409,600

## LIABILITIES

### Current liabilities

|                                             |           |           |
|---------------------------------------------|-----------|-----------|
| Bank advances and short-term notes (Note 5) | \$ 32,023 | \$ 30,313 |
| Accounts payable and accrued liabilities    | 51,776    | 50,306    |
| Income taxes payable                        | 3,539     | 1,881     |
| Current portion of long-term debt (Note 6)  | 106       | 640       |

87,444 83,140

|                              |        |        |
|------------------------------|--------|--------|
| Long-term debt (Note 6)      | 88,803 | 96,949 |
| Asset retirement obligations | 1,105  | 1,033  |

177,352 181,122

## EQUITY

|                                                      |         |         |
|------------------------------------------------------|---------|---------|
| Capital (Note 7)                                     | 165,205 | 165,205 |
| Unit purchase loan plan (Note 8)                     | (4,429) | (3,650) |
| Retained earnings                                    | 70,560  | 61,679  |
| Cumulative currency translation adjustments (Note 9) | 4,949   | 5,244   |

236,285 228,478

\$413,637 \$409,600

See accompanying notes to consolidated financial statements

Approved by the Trustees and Board



Ian Sutherland  
TRUSTEE & DIRECTOR



Edward S. Kennedy  
DIRECTOR

# Consolidated Statements of Earnings & Retained Earnings

|                                                                          | 52 Weeks Ended<br>January 29, 2005 | 53 Weeks Ended<br>January 31, 2004<br>(Restated Note 17) |
|--------------------------------------------------------------------------|------------------------------------|----------------------------------------------------------|
| (\$ in thousands)                                                        |                                    |                                                          |
| <b>SALES</b>                                                             | <b>\$ 788,693</b>                  | <b>\$ 782,720</b>                                        |
| Cost of sales, selling and administrative expenses                       | <b>(712,087)</b>                   | (709,894)                                                |
| Net earnings before amortization, interest and income taxes              | <b>76,606</b>                      | 72,826                                                   |
| Amortization                                                             | <b>(23,905)</b>                    | (22,401)                                                 |
| Interest, including interest on long-term debt of \$4,821 (2003 \$5,495) | <b>52,701</b><br><b>(5,761)</b>    | 50,425<br>(6,299)                                        |
| Provision for income taxes (Note 10)                                     | <b>46,940</b><br><b>(9,675)</b>    | 44,126<br>(8,396)                                        |
| <b>NET EARNINGS FOR THE YEAR</b>                                         | <b>37,265</b>                      | 35,730                                                   |
| Retained earnings, beginning of year as previously reported              | <b>61,679</b>                      | 52,165                                                   |
| Accounting changes (Note 17)                                             | <b>—</b>                           | (1,144)                                                  |
| Retained earnings as restated                                            | <b>98,944</b>                      | 86,751                                                   |
| Distributions                                                            | <b>(28,384)</b>                    | (25,072)                                                 |
| <b>RETAINED EARNINGS, END OF YEAR</b>                                    | <b>\$ 70,560</b>                   | <b>\$ 61,679</b>                                         |
| <b>NET EARNINGS PER UNIT (Note 11)</b>                                   |                                    |                                                          |
| Basic                                                                    | <b>\$ 2.34</b>                     | \$ 2.24                                                  |
| Diluted                                                                  | <b>\$ 2.32</b>                     | \$ 2.22                                                  |

See accompanying notes to consolidated financial statements



# Consolidated Statements of Cash Flows

| (\$ in thousands)                                 | 52 Weeks Ended<br>January 29, 2005 | 53 Weeks Ended<br>January 31, 2004 |
|---------------------------------------------------|------------------------------------|------------------------------------|
|                                                   |                                    |                                    |
| <b>CASH PROVIDED BY (USED IN)</b>                 |                                    |                                    |
| <b>Operating Activities</b>                       |                                    |                                    |
| Net earnings for the year                         | \$ 37,265                          | \$ 35,730                          |
| Non-cash items                                    |                                    |                                    |
| Amortization                                      | 23,905                             | 22,401                             |
| Future income taxes                               | 636                                | 2,789                              |
| Pension (credit) expense                          | (352)                              | (637)                              |
| Amortization of deferred financing costs          | 186                                | 186                                |
| Loss (Gain) on disposal of property and equipment | 1,158                              | (1,583)                            |
| Cash flow from operations                         | 62,798                             | 58,886                             |
| Change in other non-cash items                    | (13,873)                           | 7,894                              |
| Operating activities                              | 48,925                             | 66,780                             |
| <b>Investing Activities</b>                       |                                    |                                    |
| Purchase of property and equipment                | (22,323)                           | (33,273)                           |
| Proceeds from disposal of property and equipment  | 694                                | 3,070                              |
| Investing activities                              | (21,629)                           | (30,203)                           |
| <b>Financing Activities</b>                       |                                    |                                    |
| Change in bank advances and short-term notes      | 1,885                              | 2,475                              |
| Net purchase of units for unit purchase loan plan | (779)                              | (285)                              |
| Repayment of long-term debt                       | (4,486)                            | (1,952)                            |
| Distributions                                     | (29,105)                           | (30,639)                           |
| Financing activities                              | (32,485)                           | (30,401)                           |
| <b>NET CHANGE IN CASH</b>                         | <b>(5,189)</b>                     | <b>6,176</b>                       |
| Cash, beginning of year                           | 16,627                             | 10,451                             |
| <b>CASH, END OF YEAR</b>                          | <b>\$ 11,438</b>                   | <b>\$ 16,627</b>                   |
| Supplemental disclosure of cash paid for:         |                                    |                                    |
| Interest expense                                  | \$ 6,076                           | \$ 6,410                           |
| Income taxes                                      | 7,453                              | 4,513                              |

See accompanying notes to consolidated financial statements

# Notes to Consolidated Financial Statements

January 29, 2005

## 1. ORGANIZATION

The North West Company Fund (NWF or the Fund) is an unincorporated open-ended mutual fund trust, governed by the laws of the Province of Manitoba and the laws of Canada and created pursuant to a Declaration of Trust. The beneficiaries of the Fund (the "unitholders") are holders of trust units issued by the Fund (the "Trust Units"). The Fund is a limited purpose trust whose purpose is to invest in securities of its wholly owned subsidiary The North West Company Inc. (NWC), administer the assets and liabilities of NWF and make distributions to the unitholders all in accordance with the Declaration of Trust.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation** The consolidated financial statements of the Fund are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise noted. These consolidated financial statements include the accounts of NWF, NWC and its wholly owned subsidiaries (the "Company"), Alaska Commercial Company (AC) and the group of Tora companies, operating as Giant Tiger stores. All significant inter-company amounts and transactions have been eliminated on consolidation.

**Fiscal Year** The fiscal year ends on the last Saturday in January. Accordingly, the 2004 fiscal year ended January 29, 2005 (52 weeks) and the 2003 fiscal year ended January 31, 2004 (53 weeks). Approximately every five years an additional week of sales and expenses are included in the financial results to bring results back in line with the 52-week year.

**Revenue Recognition** Revenue on the sale of goods and services is recorded at the time the sale is made to the customer. Service charges on credit card receivables are accrued each month on balances outstanding at each account's billing date.

**Accounts Receivable** Accounts receivable classified as current assets include customer installment accounts of which a portion will not become due within one year.

**Inventories** Inventories are valued at the lower of cost and net realizable value less normal profit margins. The cost of warehouse inventories is determined by the average cost method. The cost of retail inventories is determined primarily using the retail method of accounting for general merchandise inventories and the cost method of accounting for food inventories.

**Property and Equipment** Property and equipment are recorded at cost. Amortization is provided using the straight-line method over their estimated useful lives, as follows:

|                                      |         |
|--------------------------------------|---------|
| Buildings .....                      | 2%–5%   |
| Leasehold improvements .....         | 5%–20%  |
| Fixtures and equipment.....          | 8%      |
| Computer equipment and software..... | 12%–33% |

**Impairment of Long Lived Assets** Impairment of long-lived assets is recognized when an event or change in circumstances causes the asset's carrying value to exceed the total undiscounted cash flows expected from its use and eventual disposition. The impairment loss is calculated by deducting the fair value of the asset from its carrying value.

**Other Assets** The investments in transportation companies are accounted for on the equity basis. Deferred financing costs are being amortized over the life of the instrument. Prepayments under lease agreements are being amortized over their respective lease terms.

**Unit Purchase Loan Plan** Loans issued to officers to purchase units of the Fund under the unit purchase loan plan are treated as a reduction of equity.

**Foreign Currency Translation** The accounts of Alaskan operations have been translated into Canadian dollars using the current rate method whereby assets and liabilities are translated at the year-end exchange rate and revenues and expenses at the average rate for the period. Foreign exchange gains or losses arising from the translation of the net investment in self-sustaining Alaskan operations and the portion of the U.S. denominated debt designated as a hedge against this investment are deferred and included in a separate component of equity as a cumulative currency translation adjustment. These cumulative currency translation adjustments are recognized in income when there has been a reduction in the net investment in the self-sustaining foreign operation.



**Income Taxes** The Fund is an inter vivos trust for income tax purposes. All income of the Fund is distributed to unitholders and, as such, no income tax is payable by the Fund.

The Company accounts for income taxes using the liability method of tax allocation. Under the liability method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized. The provision for income taxes is recorded in the Company at applicable statutory rates.

**Employee Future Benefits** The Company maintains both defined benefit and defined contribution pension plans for substantially all of its employees. The actuarial determination of the accrued benefit obligations for pension benefits uses the projected benefit method prorated on services which incorporates management's best estimate of expected plan investment performance, salary escalation, and retirement ages of employees. For the purpose of calculating the expected returns on plan assets, those assets are valued at market related value based on a five year moving average. Past service costs and the net transitional asset are amortized on a straight line basis over the average remaining service period of the employees expected to receive the benefits under the plan. The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the market related value of the plan assets is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by the pension plan is 15 years (2003–15 years). Contributions to the defined contribution pension plan are expensed as incurred.

**Unit Appreciation Rights (UARs) Plans** Compensation expense under the Company's UARs plans is charged to operations as it accrues using the fair value method. No units of the Fund are issued under these plans.

**Financial Instruments** The Company uses various financial instruments to reduce its exposure to fluctuations in interest and U.S. currency exchange rates. The Company does not hold or issue any derivative financial instruments for speculative trading purposes. The interest differential to be paid or received under interest rate swap agreements is recognized over the life of the contracts as an adjustment to interest expense. The Company translates its U.S. denominated debt that is hedged by cross currency swaps at the rate implicit in the swap agreement.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Future events could alter such estimates in the near term.

### 3. PROPERTY AND EQUIPMENT (\$ in thousands)

| Year Ended                         | January 2005     |                             | January 2004 |                             |
|------------------------------------|------------------|-----------------------------|--------------|-----------------------------|
|                                    | Cost             | Accumulated<br>Amortization | Cost         | Accumulated<br>Amortization |
| Land                               | \$ 6,498         | \$ —                        | \$ 6,310     | \$ —                        |
| Buildings & leasehold improvements | 201,775          | 93,385                      | 198,105      | 84,961                      |
| Fixtures & equipment               | 121,051          | 73,223                      | 118,656      | 67,430                      |
| Computer equipment & software      | 62,967           | 39,579                      | 72,099       | 50,384                      |
|                                    | <b>\$392,291</b> | <b>\$206,187</b>            | \$395,170    | \$202,775                   |
| Net book value                     |                  | <b>\$186,104</b>            |              | \$192,395                   |

### 4. OTHER ASSETS (\$ in thousands)

| Year Ended                              | January 2005    | January 2004 |
|-----------------------------------------|-----------------|--------------|
| Investments in transportation companies | \$ 5,036        | \$ 4,315     |
| Deferred financing costs                | 853             | 1,039        |
| Prepayments under lease agreements      | 1,052           | 1,151        |
| Long-term receivable                    | 3,839           | 3,993        |
| Other*                                  | 1,179           | 1,655        |
|                                         | <b>\$11,959</b> | \$12,153     |

\*Other includes redeemable deposits with suppliers and a mortgage receivable

## 5. BANK ADVANCES AND SHORT-TERM NOTES

The Canadian operation has available operating loan facilities of \$85 million at interest rates ranging from prime to prime plus .75%. These facilities are secured by a floating charge against the assets of the Company on a parri-passu basis with the senior note holders. As at January 29, 2005, the Company had drawn on the facilities \$29,191,000 (2003—\$28,834,000).

The Alaskan operation has available an operating loan facility of US\$4 million at an interest rate of prime plus 1.0% secured by a floating charge against the assets of the Company. As at January 29, 2005, the Alaskan operations had drawn on the facility US\$2,281,000 (2003—US\$1,409,000).

## 6. LONG-TERM DEBT (\$ in thousands)

| Year Ended                                    | January 2005     | January 2004 |
|-----------------------------------------------|------------------|--------------|
| Senior notes <sup>1</sup>                     | \$ 80,679        | \$ 86,704    |
| Effect of foreign currency swaps <sup>1</sup> | 6,805            | 4,728        |
| Real estate loans <sup>2</sup>                | —                | 4,523        |
| Obligation under capital lease <sup>3</sup>   | 1,425            | 1,634        |
|                                               | <b>88,909</b>    | 97,589       |
| Less: Current portion of long-term debt       | <b>106</b>       | 640          |
|                                               | <b>\$ 88,803</b> | \$ 96,949    |

1 The US\$65 million senior notes mature on June 15, 2009 and bear an interest rate of 5.89% payable semi-annually. Repayment of 20% of the principal is required on June 15, 2007 and June 15, 2008. The notes are secured by a floating charge against the assets of the Company. The Company has entered into various cross currency interest rate and interest rate swaps resulting in floating interest costs on US\$36 million of its senior notes. After giving effect to the interest rate swaps and cross currency interest rate swaps the effective interest rate for 2004 was 5.3%.

2 The Alaska Industrial and Economic Development Export Authority (AIDEA) and two Alaskan-based banks provided real estate loans to assist in the financing of new stores. The loans were fully repaid in 2004.

3 The obligation under a capital lease of US\$1.1 million (2003—US\$1.2 million) is repayable in blended principal and interest payments of US\$200,000 annually. The obligation will be fully repaid on October 31, 2013.

The Company's principal payments of long-term debt over the next five years are as follows:

| Years Ending January      | (\$ in thousands) |
|---------------------------|-------------------|
| 2006 .....                | \$ 106            |
| 2007 .....                | 117               |
| 2008 .....                | 16,277            |
| 2009 .....                | 16,291            |
| 2010 and thereafter ..... | 48,602            |

## 7. CAPITAL

**Authorized** The Fund has an unlimited number of units.

| (units and \$ in thousands)<br>Year Ended | January 2005  |                  | January 2004 |           |
|-------------------------------------------|---------------|------------------|--------------|-----------|
| Issued and outstanding                    | <b>16,126</b> | <b>\$165,205</b> | 16,126       | \$165,205 |

## 8. UNIT PURCHASE LOAN PLAN

During the year the Company issued loans to officers to purchase units under the unit purchase loan plan. These loans are non-interest bearing and are repayable from the Company's after tax distributions or if the officer sells the units or leaves the Company. The loans are secured by a pledge of 225,998 units of NWF with a quoted value of \$7,006,000 as at January 28, 2005. Loans receivable at January 29, 2005 of \$4,429,000 (2003—\$3,650,000) are recorded as a reduction of equity. The loans have a term of five years. The maximum amount of the loans under the plan will not exceed \$7,500,000.

## 9. CUMULATIVE CURRENCY TRANSLATION ADJUSTMENTS (\$ in thousands)

| Year Ended                 | January 2005   | January 2004 |
|----------------------------|----------------|--------------|
| Balance, beginning of year | <b>\$5,244</b> | \$ 5,379     |
| Movement in exchange rate  | <b>(295)</b>   | (135)        |
| Balance, end of year       | <b>\$4,949</b> | \$ 5,244     |

The cumulative currency translation adjustments account represents the net changes due to exchange rate fluctuations in the equivalent Canadian dollar book values of the net investment in self-sustaining Alaskan operations since the date of acquisition. A portion of the U.S. denominated senior notes in the amount of US\$43 million has been designated as a hedge against the Alaskan operations.



## 10. INCOME TAXES (\$ in thousands)

Significant components of the Company's future tax assets are as follows:

| Year Ended                                                  | January 2005    | January 2004    |
|-------------------------------------------------------------|-----------------|-----------------|
| <b>Future tax assets</b>                                    |                 |                 |
| Non-capital loss carryforwards                              | \$ 472          | \$ 82           |
| Tax values of capital assets in excess of accounting values | 7,545           | 8,215           |
| Provisions and other temporary differences                  | 2,382           | 2,841           |
| <b>Net future tax asset</b>                                 | <b>\$10,399</b> | <b>\$11,138</b> |
| <b>Comprised of</b>                                         |                 |                 |
| Current                                                     | \$ 2,467        | \$ 2,916        |
| Long-term                                                   | 7,932           | 8,222           |
|                                                             | <b>\$10,399</b> | <b>\$11,138</b> |

Income tax expense differs from the amounts, which would be obtained by applying the combined statutory income tax rate to earnings due to the following:

| Year Ended                                                             | January 2005 | January 2004 |
|------------------------------------------------------------------------|--------------|--------------|
| Net earnings before income taxes                                       | \$46,940     | \$44,126     |
| Combined statutory income tax rate                                     | 36.67%       | 38.20%       |
| Income taxes based on combined statutory income tax rate               | 17,212       | 16,856       |
| Increase (decrease) in income taxes resulting from:                    |              |              |
| Large corporation tax                                                  | 620          | 674          |
| Amounts not subject to income tax                                      | (160)        | 93           |
| Income tax deductions on interest paid to the Fund                     | (9,425)      | (10,008)     |
| Withholding tax                                                        | 815          | —            |
| Recognition of Canadian income tax rate changes on future income taxes | (39)         | (38)         |
| Other                                                                  | 652          | 819          |
| Provision for income taxes                                             | \$ 9,675     | \$ 8,396     |
| Effective income tax rate                                              | 20.61%       | 19.03%       |

Significant components of the provision for income taxes are as follows:

| Year Ended                                                             | January 2005 | January 2004 |
|------------------------------------------------------------------------|--------------|--------------|
| Current income tax expense                                             | \$ 9,039     | \$ 5,607     |
| Future income tax expense (benefit) relating to:                       |              |              |
| Temporary differences and loss carryforwards                           | 675          | 2,827        |
| Recognition of Canadian income tax rate changes on future income taxes | (39)         | (38)         |
| Provision for income taxes                                             | \$ 9,675     | \$ 8,396     |

## 11. NET EARNINGS PER UNIT

Basic net earnings per unit are calculated based on the weighted-average units outstanding of 15,918,000 (2003–15,940,000). The diluted net earnings per unit takes into account the additional income that would have been earned by the Company had interest costs not been incurred on the unit purchase loan plan and had the respective units been outstanding during the year.

(\$ and units in thousands except diluted earnings per unit)

| Year Ended                                         | January 2005   | January 2004   |
|----------------------------------------------------|----------------|----------------|
| <b>Diluted earnings per unit calculation:</b>      |                |                |
| Net earnings for the year                          |                |                |
| (numerator for basic earnings per unit)            | \$37,265       | \$35,730       |
| After tax interest cost of unit purchase loan plan | 163            | 128            |
| Numerator for diluted earnings per unit            | \$37,428       | \$35,858       |
| Weighted average units outstanding                 | 15,918         | 15,940         |
| Effect of diluted unit purchase loan plan          | 208            | 186            |
| Denominator for diluted earnings per unit          | 16,126         | 16,126         |
| <b>Diluted earnings per unit</b>                   | <b>\$ 2.32</b> | <b>\$ 2.22</b> |

## 12. SEGMENTED INFORMATION (\$ in thousands)

The Company operates predominantly within the retail industry in northern Canada and Alaska. The following information is presented for the two business segments:

| Year Ended                                                         | January 2005 | January 2004 |
|--------------------------------------------------------------------|--------------|--------------|
| <b>Sales</b>                                                       |              |              |
| Canada                                                             | \$629,822    | \$615,661    |
| Alaska                                                             | 158,871      | 167,059      |
| Total                                                              | \$788,693    | \$782,720    |
| <b>Net earnings before amortization, interest and income taxes</b> |              |              |
| Canada                                                             | \$ 62,629    | \$ 57,663    |
| Alaska                                                             | 13,977       | 15,163       |
| Total                                                              | \$ 76,606    | \$ 72,826    |
| <b>Net earnings before interest and income taxes</b>               |              |              |
| Canada                                                             | \$ 42,652    | \$ 39,250    |
| Alaska                                                             | 10,049       | 11,175       |
| Total                                                              | \$ 52,701    | \$ 50,425    |
| <b>Identifiable assets</b>                                         |              |              |
| Canada                                                             | \$293,254    | \$289,825    |
| Alaska                                                             | 63,963       | 66,555       |
| Total                                                              | \$ 357,217   | \$356,380    |

### 13. EMPLOYEE FUTURE BENEFITS (\$ in thousands)

The Company sponsors defined benefit pension plans covering substantially all Canadian employees. The defined benefit pension plans are based on years of service and final average salary. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes as at January 29, 2005 and January 31, 2004. The accrued pension benefits and the market value of the plans' net assets were last determined by actuarial valuation as at January 1, 2002. The next actuarial valuation is required for January 1, 2005. The Company also sponsors an employee savings plan covering all U.S. employees with at least six months of service. Under the terms of the plan, the Company is obligated to make a 50% matching contribution up to 3% of eligible compensation.

Total cash payments by the Company for future employee benefits, consisting of cash contributed to its pension plans and U.S. employees' savings plans, was \$2,395,000 (2003—\$2,368,000).

The following significant actuarial assumptions were employed to measure the accrued benefit obligations and benefit plan expense:

| Year Ended                                       | January 2005 | January 2004 |
|--------------------------------------------------|--------------|--------------|
| <b>Accrued benefit obligations</b>               |              |              |
| Discount rate                                    | <b>6.0%</b>  | 6.5%         |
| Rate of compensation increase                    | <b>4.0%</b>  | 4.0%         |
| <b>Benefit plan expense</b>                      |              |              |
| Discount rate                                    | <b>6.5%</b>  | 7.0%         |
| Expected long-term rate of return on plan assets | <b>7.0%</b>  | 7.0%         |
| Rate of compensation increase                    | <b>4.0%</b>  | 4.0%         |

The Company's pension benefit expense is determined as follows:

| Year Ended                                           | January 2005         |                                      |                       | January 2004         |                                      |                       |
|------------------------------------------------------|----------------------|--------------------------------------|-----------------------|----------------------|--------------------------------------|-----------------------|
|                                                      | Incurring<br>in year | Matching<br>Adjustments <sup>1</sup> | Recognized<br>in year | Incurring<br>in year | Matching<br>Adjustments <sup>1</sup> | Recognized<br>in year |
| Current service costs, net of employee contributions | \$ 2,244             | \$ —                                 | \$ 2,244              | \$ 1,996             | \$ —                                 | \$ 1,996              |
| Interest on accrued benefits                         | 2,745                | —                                    | 2,745                 | 2,666                | —                                    | 2,666                 |
| Return on plan assets                                | (2,979)              | 109                                  | (2,870)               | (2,304)              | (484)                                | (2,788)               |
| Actuarial (gain) loss                                | 3,312                | (3,240)                              | 72                    | 2,200                | (2,200)                              | —                     |
| Past service costs                                   | —                    | (11)                                 | (11)                  | —                    | (11)                                 | (11)                  |
| Amortization of net transition asset                 | —                    | (308)                                | (308)                 | —                    | (308)                                | (308)                 |
| Net benefit plan expense                             | \$ 5,322             | \$ (3,450)                           | \$ 1,872              | \$ 4,558             | \$ (3,003)                           | \$ 1,555              |

<sup>1</sup> Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits

The expense incurred under the employee savings plan covering U.S. employees is US\$131,000 (2003—US\$127,000).



Information on the Company's defined benefit plans, in aggregate, is as follows:

| Year Ended                                   | January 2005 | January 2004 |
|----------------------------------------------|--------------|--------------|
| <b>Plan assets</b>                           |              |              |
| Fair value—beginning of year                 | \$ 37,026    | \$ 34,852    |
| Actual return (loss) on plan assets          | 2,870        | 2,514        |
| Employer contributions                       | 2,212        | 2,192        |
| Employee contributions                       | 46           | 52           |
| Benefits paid                                | (2,955)      | (2,584)      |
| Fair value—end of year                       | \$ 39,199    | \$ 37,026    |
| <b>Plan obligations</b>                      |              |              |
| Accrued benefit obligation—beginning of year | \$ 43,704    | \$ 39,373    |
| Current service cost                         | 2,277        | 2,049        |
| Accrued interest on benefits                 | 2,745        | 2,666        |
| Benefits paid                                | (2,955)      | (2,584)      |
| Actuarial loss                               | 3,312        | 2,200        |
| Accrued benefit obligation—end of year       | \$ 49,083    | \$ 43,704    |
| <b>Funded status</b>                         |              |              |
| Fair value plan assets                       | \$ 39,199    | \$ 37,026    |
| Accrued benefit obligation                   | 49,083       | 43,704       |
| Plan deficit                                 | (9,884)      | (6,678)      |
| Unamortized experience gains/losses          | 12,941       | 9,701        |
| Unamortized net transitional asset           | (2,690)      | (2,998)      |
| Unamortized past service costs               | (73)         | (84)         |
| Accrued benefit asset (liability)            | \$ 294       | \$ (59)      |

The accrued benefit asset (liability) is included in accounts payable and accrued liabilities in the Company's consolidated balance sheet.

The accrued benefit obligation of all of the Company's defined benefit pension plans exceeds the fair value of plan assets as noted above.

| Year Ended                     | January 2005 | January 2004 |
|--------------------------------|--------------|--------------|
| <b>Plan assets consist of:</b> |              |              |
| Equity securities              | 51%          | 48%          |
| Debt securities                | 38%          | 42%          |
| Other                          | 11%          | 10%          |
| Total                          | 100%         | 100%         |

The pension plans have no investment in the units of the Company.

## 14. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### Commitments

a) In 2002, the Company signed a 30-year Master Franchise Agreement with *Giant Tiger Stores Limited*, based in Ottawa, Ontario which grants the Company the exclusive right to open Giant Tiger stores in western Canada. Under the agreement, *Giant Tiger Stores Limited* provides product sourcing, merchandising, systems and administration support to the Company's Giant Tiger stores in return for a royalty based on sales. The Company is responsible for opening, owning, operating and providing distribution services to the stores. The Company's exclusivity right requires that a minimum number of Giant Tiger stores be opened each year, based on an expected roll-out of 72 stores over the term of the agreement. As at January 29, 2005 the Company has opened 10 Giant Tiger stores.

b) In 1992, the Company entered into an agreement to lease the land on which the Winnipeg Logistics Service Centre is located from the City of Winnipeg for \$1 per year for 15 years subject to attaining agreed-upon job creation targets. Management anticipates that the agreed targets will be met; accordingly, no additional lease payments have been accrued. The Company is obligated to buy the land for the greater of \$1,710,000 or fair market value at August 31, 2007.

c) The Company has future commitments under operating leases as follows:

| Years Ending January | Minimum Lease Payments (\$ in thousands) |
|----------------------|------------------------------------------|
| 2006 .....           | \$11,169                                 |
| 2007 .....           | 10,390                                   |
| 2008 .....           | 9,830                                    |
| 2009 .....           | 8,850                                    |
| 2010 .....           | 7,301                                    |
| Thereafter .....     | 51,815                                   |

**Contingencies** Canada Revenue Agency is currently conducting an audit for the taxation years 1996–1999. It is the opinion of management that the pending reassessments will be resolved without material effect on the financial statements.

**Guarantees** The Company has provided the following significant guarantees to third parties:

a) The Company has entered into indemnification agreements with its current and former directors and officers to indemnify them, to the extent permitted by law, against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any judicial, administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased director and officer liability insurance. No amount has been recorded in the financial statements with respect to these indemnification agreements.



b) In the normal course of operations, the Company provides indemnification agreements to counterparties for various events such as intellectual property right infringement, loss or damages to property, claims that may arise while providing services, violation of laws or regulations, or as a result of litigation that might be suffered by the counterparties. The terms and nature of these indemnification agreements vary based on the specific contract. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. No amount has been recorded in the financial statements with respect to these indemnification agreements.

## 15. UNIT APPRECIATION RIGHTS (UARs) PLANS

The Company has two UARs plans, non-contingent and performance contingent, which form part of the long-term incentive program for senior management. The UARs program was discontinued in 2000, however previously issued UARs continue to vest until 2005 and expire in 2006. The expense incurred during the year under the plan was \$252,000 (2003—\$842,000).

**Non-Contingent Plan** A summary of the Company's non-contingent plan and changes during the year is presented below:

| Year Ended                       | January 2005    |         | January 2004    |         |
|----------------------------------|-----------------|---------|-----------------|---------|
|                                  | UARs<br>(000's) | Price*  | UARs<br>(000's) | Price*  |
| Outstanding at beginning of year | 128             | \$13.55 | 294             | \$13.79 |
| Exercised                        | (113)           | 25.66   | (156)           | 23.16   |
| Forfeited                        | (6)             | 10.50   | (10)            | 14.00   |
| Outstanding at end of year       | 9               | \$12.34 | 128             | \$13.55 |
| UARs exercisable at year end     | 4               |         | 94              |         |

\*Weighted-average

The non-contingent UARs vest over five years and expire after six years. As of January 29, 2005, the 9,000 non-contingent UARs outstanding under this plan have exercise prices between \$10.50 and \$15.00.

**Performance Contingent Plan** The Company granted qualifying senior management UARs where vesting was contingent upon reaching predetermined financial targets by January 26, 2002 and the personal ownership of units equal to the number of UARs granted. These contingent UARs commenced vesting in 2002 and vest over three years and expire after four years.

A summary of the Company's performance contingent plan and changes during the year is presented below:

| Year Ended                       | January 2005    |         | January 2004    |         |
|----------------------------------|-----------------|---------|-----------------|---------|
|                                  | UARs<br>(000's) | Price*  | UARs<br>(000's) | Price*  |
| Outstanding at beginning of year | 17              | \$14.88 | 30              | \$14.53 |
| Exercised                        | (17)            | 26.33   | (13)            | 23.78   |
| Forfeited                        | —               | —       | —               | —       |
| Outstanding at end of year       | —               | —       | 17              | \$14.88 |
| UARs exercisable at year end     | —               |         | 12              |         |

\*Weighted-average

As of January 29, 2005, there are no performance UARs outstanding under the plan.

## 16. FINANCIAL INSTRUMENTS (\$ in thousands)

**Short-Term Financial Instruments** Short-term financial instruments which include cash, accounts receivable, bank advances and short-term notes, accounts payable and accrued liabilities, and income tax payable are valued at their carrying amounts included in the balance sheet, which are reasonable estimates of fair value due to the relative short period to maturity of the instruments.

**Long-Term Financial Instruments** The Company has the following long-term financial instruments outstanding as at January 29, 2005:

|                                             | Maturity  | Interest Rate                                   | Carrying Value        | Fair Value                   |
|---------------------------------------------|-----------|-------------------------------------------------|-----------------------|------------------------------|
| <b>Debt</b>                                 |           |                                                 |                       |                              |
| US\$65 million Senior notes                 | 2009      | 5.89% <sup>1</sup>                              | \$80,679 <sup>2</sup> | \$83,877                     |
|                                             |           |                                                 |                       | <b>Unrealized Gain(Loss)</b> |
| <b>Swaps</b>                                |           |                                                 |                       |                              |
| US\$14 million Interest rate                | 2007–2009 | LIBOR <sup>3</sup> plus 1.87%                   |                       | \$60                         |
| US\$22 million Cross currency Interest rate | 2007–2009 | B.A. <sup>4</sup> plus 2.99% to B.A. plus 3.16% |                       | \$(7,905)                    |

<sup>1</sup> Weighted-average

<sup>2</sup> The senior notes (note 6) recorded on the balance sheet includes unrealized losses of \$6,805 on the foreign currency portion of the US\$22 million cross currency interest rate swaps

<sup>3</sup> London Interbank Offered Rate

<sup>4</sup> Bankers' Acceptances



**Interest Rate Risk** The Company has exposure to interest rate fluctuations on the swapped amount of its senior notes.

**Credit Risk** The Company is exposed to credit risk, primarily in relation to credit card customer accounts and notes receivable from First Nations governments. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

## 17. ACCOUNTING POLICY CHANGES

In 2004 the Company implemented the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA):

**Hedging Relationships** The Company adopted Accounting Guideline 13 "Hedging Relationships" (AcG 13), effective February 1, 2004. In accordance with the new guideline, the Company's hedging relationships are documented and subject to effectiveness tests on a quarterly basis for reasonable assurance that they are and will continue to be effective. Any derivative that does not qualify for hedge accounting is reported in earnings on a mark to market basis. The adoption of AcG 13 had no impact on the Company's financial statements.

**Asset Retirement Obligations** In the first quarter of 2004, the Company retroactively implemented CICA Section 3110 "Asset Retirement Obligations" (CICA 3110). Section 3110 establishes the standards for the recognition, measurement and disclosure of legal obligations associated with the costs to retire long-lived assets. A liability associated with the retirement of long-lived assets is recorded in the period in which the legal obligation is incurred at its estimated fair value and a corresponding asset is capitalized as part of the related asset and that asset is depreciated over its useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted to reflect the passage of time and changes in the estimated future costs underlying the obligation.

Accordingly, the Company has recognized a discounted liability associated with the operation of petroleum dispensing units and specific provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms. This standard was implemented retroactively with restatement of the prior year's consolidated financial statements. The cumulative effect of implementation was a decrease to opening retained earnings for 2003 of \$287,000 (net of future income taxes recoverable of \$165,000), an increase in property and equipment of \$586,000, an increase in other liabilities of \$1,033,000 and an increase in the cumulative translation adjustment of \$5,000. The impact on net earnings for each of 2003 and 2004 was not material.

## Accounting for Certain Consideration Received from Vendors

In the third quarter of 2004, the Company retroactively implemented Emerging Issues Committee Abstract 144 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (EIC 144). EIC 144 requires a customer to record cash consideration received from a vendor as a reduction in the price of the vendor's products and reflect it as a reduction of cost of goods sold and related inventory when recognized in the income statement and balance sheet.

The Company receives allowances from certain of its merchandise vendors which it records as a reduction of cost of goods sold. EIC 144 has changed the timing of recognition of some vendor allowances. This standard was implemented retroactively with restatement of the prior year's consolidated financial statements. Accordingly, the Company recorded a decrease to opening retained earnings for 2003 of \$857,000 (net of current future income taxes recoverable of \$487,000), a decrease to inventory of \$1,324,000 and an increase of \$20,000 to the cumulative translation adjustment. The impact on earnings for each of 2003 and 2004 was not material.

**Variable Interest Entities** During the fourth quarter, the Company adopted in advance Accounting Guideline 15 "Consolidation of Variable Interest Entities" (AcG 15). This guideline requires the consolidation of variable interest entities (VIE) for annual or interim periods beginning on or after November 1, 2004. A VIE is any legal structure used to conduct activities or hold assets which are not controlled by voting interests, but rather by contractual or other interests that change with that entity's underlying net asset value. The Company has assessed the impact of the accounting guideline and determined that the Company is not the primary beneficiary of any variable interest entities and accordingly, the implementation of AcG 15 has not had any impact on the consolidated financial statements.

## 18. COMPARATIVE AMOUNTS

The comparative amounts have been reclassified to conform with the current year's presentation.

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